



PUBLIC ACCOUNTS

VOLUME 1

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED MARCH 31, 2007

THE HONOURABLE MICHAEL G. BAKER, Q.C.
MINISTER OF FINANCE



PUBLIC ACCOUNTS

VOLUME 1

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED MARCH 31, 2007

THE HONOURABLE MICHAEL G. BAKER, Q.C.
MINISTER OF FINANCE

© Crown copyright, Province of Nova Scotia, 2007

Published in conventional and electronic form by
Communications Nova Scotia.

ISBN: 978-1-55457-130-8

 **PRINTED IN CANADA**

Public Accounts

Volume 1—Financial Statements
for the fiscal year ended March 31, 2007



Contents

Message from the Minister.....	5
Introduction.....	7
Financial Statement Discussion and Analysis	
Financial Highlights of the Consolidated Financial Statements.....	9
Selected Highlights of the Consolidated Fund	
Budgetary Summary.....	23
Revenues.....	24
Net Program Expenses.....	27
Tangible Capital Assets.....	32
Additional Appropriations.....	34
Debt Review of the Consolidated Fund.....	36
The Economy.....	40
Consolidated Financial Statements.....	47
Statement of Responsibility.....	49
Auditor's Report.....	51
Statement 1: Consolidated Statement of Financial Position.....	53
Statement 2: Consolidated Statement of Operations and	
Accumulated Deficits.....	54
Statement 3: Consolidated Statement of Change in Net Direct Debt.....	55
Statement 4: Consolidated Statement of Cash Flow.....	56
Schedule 1: Revenue.....	57
Schedule 2: Expenses.....	58
Schedule 3: Loans and Investments.....	62
Schedule 4: Unmatured Debt.....	63
Schedule 5: Gross Long-term Debt.....	65
Schedule 6: Government Business Enterprises.....	67
Schedule 7: Tangible Capital Assets.....	70
Schedule 8: Direct Guarantees.....	72
Schedule 9: Government Reporting Entity.....	73
Notes to the Consolidated Financial Statements.....	75

Message from the Minister

I am pleased to present the Province of Nova Scotia's Public Accounts for the fiscal year 2006-07.

This is the sixth consecutive year that the Province of Nova Scotia has brought in a balanced budget and recorded a surplus in its year-end financial statements.

We ended the year in a surplus position, with revenues exceeding expenses by \$182.4 million.

Revenues were higher than previous year, primarily due to higher petroleum royalties and income taxes. Government carefully monitored expenses through the year to ensure we met our fiscal plan.

To build Nova Scotia's economy, we chose to increase capital investment in roads, schools and other infrastructure. This caused the net direct debt to increase this year, consistent with projections in our debt management plan.

As at March 31, 2007, the net direct debt was \$12.4 billion, \$118.0 million higher than the prior year. It is projected to decline once again in 2007-08.

Nova Scotia's economic growth has been steady, with real GDP of 2.0 per cent in the 2006 calendar year.

The March 31, 2007 financial statements are compliant with generally accepted accounting principles, and have received an unqualified audit opinion from the Auditor General.

These are solid results for Nova Scotia, indicating our continued commitment to careful management of the province's finances.



Hon. Michael G. Baker, Q.C.
Minister of Finance

Introduction

In accordance with the Provincial Finance Act, the Minister of Finance for the Province of Nova Scotia produces financial statements annually to report on the operating results and financial condition of the province. These are general-purpose financial statements, meant to meet the needs of a variety of users, and are presented in this publication. They are prepared on a consolidated basis, meaning that they include the financial information for the departments of government as well as Crown corporations, boards and other entities owned or controlled by the government.

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) for the public sector. For purposes of the province's financial statements, this means the accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

The 2006-07 Public Accounts *Volume 1 - Financial Statements* commences with the Financial Statement Discussion and Analysis (FSD&A) section. The FSD&A is a reporting practice recommended by PSAB and responsibility for its preparation rests with the government. This section presents comparative Financial Highlights of the Consolidated Financial Statements including all the entities owned or controlled by the government, as well as financial highlights for the Consolidated Fund on its own. The FSD&A also includes an overview and highlights of provincial debt and the Nova Scotia economy.

The Consolidated Fund is the level at which the annual estimates are prepared in detail for approval by the government. Therefore, the selected highlights of the Consolidated Fund include more-detailed information and budget-to-actual analysis on revenues, expenses, tangible capital assets, and additional appropriations. The Consolidated Fund comprises all departments and public service units of the Nova Scotia provincial government, but excludes other governmental units and government business enterprises owned or controlled by the province.

There are two additional publications in the Public Accounts suite of annual financial reports. *Volume 2 - Agencies and Funds* consists of reproductions of the financial statements of various agencies, boards, governmental units, government business enterprises, and trust funds. *Volume 3 - Supplementary Information* is produced in accordance with the Provincial Finance Act as a record of the payments made by the Consolidated Fund in the fiscal year for salaries, travel, grants, and expenses.

Financial Statement Discussion and Analysis

Financial Highlights of the Consolidated Financial Statements

These financial highlights are based on information from the consolidated financial statements for 2006-07, as presented on pages 47-90 of this publication.

Consolidated Statement Of Operations and Accumulated Deficits

The main purpose of the Consolidated Statement of Operations and Accumulated Deficits is to report the province's revenues and expenses for the year ended March 31, 2007 and the comparative fiscal year. In accordance with the Provincial Finance Act, the province is required each year to ensure that expenses do not exceed revenues. Under generally accepted accounting principles (GAAP), a year-end surplus reduces accumulated deficits.

Provincial Surplus

The provincial surplus is the net financial result of the year's operations. In 2006-07, as shown below, total revenues were \$8.3 billion and total expenses were \$8.1 billion. The resulting provincial surplus was \$182.4 million, which was \$56.3 million lower than the year before and \$109.0 million higher than the budget of \$73.5 million. Surplus per capita decreased by \$60 from \$256 to \$196. On a per capita basis, the province earned \$460 more revenue but spent \$520 more per person in the year.

Provincial Surplus (\$ thousands)

	Estimate 2006-07	Actual 2006-07	Actual 2005-06 (as restated)	Actual vs Estimate	Actual vs Actual
Total Revenue	8,136,122	8,293,069	7,872,948	156,947	420,121
Total Expenses	(8,062,630)	(8,110,623)	(7,634,163)	(47,993)	(476,460)
Provincial Surplus	73,492	182,446	238,785	108,954	(56,339)

Per Capita \$

Total Revenue	8,720	8,889	8,429	169	460
Total Expenses	(8,641)	(8,693)	(8,173)	(52)	(520)
Provincial Surplus	79	196	256	117	(60)

Population (000's)

	933	934
--	-----	-----



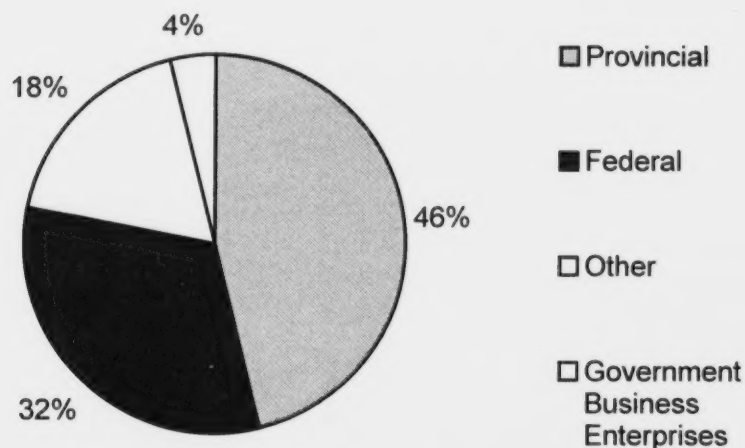
Revenue

The sources of revenue have remained reasonably consistent with the prior year whereby income and sales taxes together with equalization and other federal contributions make up 75 per cent of total revenue (75 per cent in 2005-06). The remaining balance is earned from a variety of sources and controlled entities. Growth in revenue from taxes and federal contributions is attributable to the Consolidated Fund specifically. More detailed information on these Consolidated Fund increases is provided in the analysis on page 24 of this publication.

Revenue (\$ thousands)

	Estimate 2006-07	Actual 2006-07	Actual 2005-06 (as restated)	Actual vs Estimate	Actual vs Actual
Income Taxes	2,030,618	2,071,580	1,929,957	40,962	141,623
Sales Taxes	1,529,420	1,494,873	1,483,575	(34,547)	11,298
Federal Equalization	1,385,539	1,385,539	1,343,527	—	42,012
Other Federal Contributions	1,305,753	1,220,066	1,138,754	(85,687)	81,312
Petroleum Royalties	280,000	269,100	123,850	(10,900)	145,250
Other	1,269,728	1,511,270	1,507,866	241,542	3,404
Total Revenue from Governmental Units	7,801,058	7,952,428	7,527,529	151,370	424,899
Net Income from Government Business Enterprises	335,064	340,641	345,419	5,577	(4,778)
Total Revenue	8,136,122	8,293,069	7,872,948	156,947	420,121

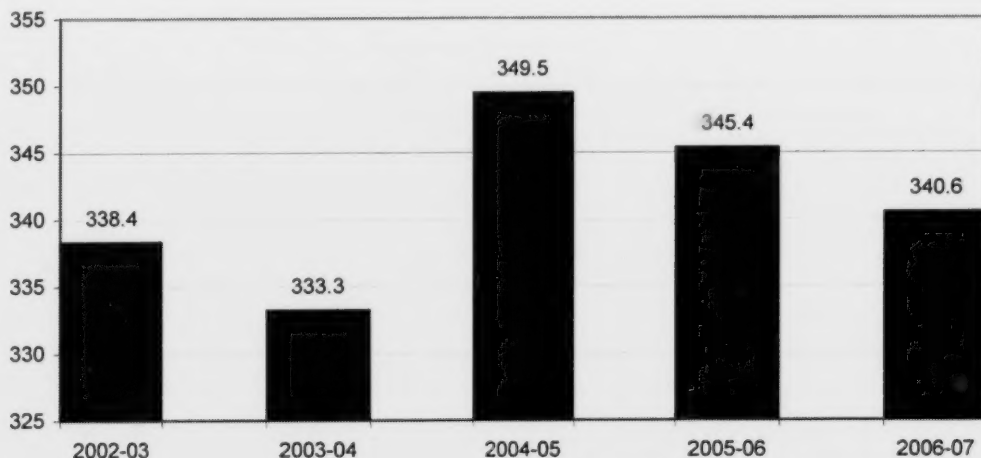
	Percentage of total		Revenue Per Capita (\$)	
	Actual 2006-07	Actual 2005-06 (as restated)	Actual 2006-07	Actual 2005-06 (as restated)
Income Taxes	25%	25%	2,220	2,066
Sales Taxes	18%	19%	1,602	1,588
Federal Equalization	17%	17%	1,485	1,438
Other Federal Contributions	15%	14%	1,308	1,219
Petroleum Royalties	3%	2%	289	133
Other	18%	19%	1,620	1,615
Total Revenue from Governmental Units	96%	96%	8,524	8,059
Net Income from Government Business Enterprises	4%	4%	365	370
Total Revenue	100%	100%	8,889	8,429
Population (000's)			933	934

**Revenue By Source
2006-07****Government Business Enterprises**

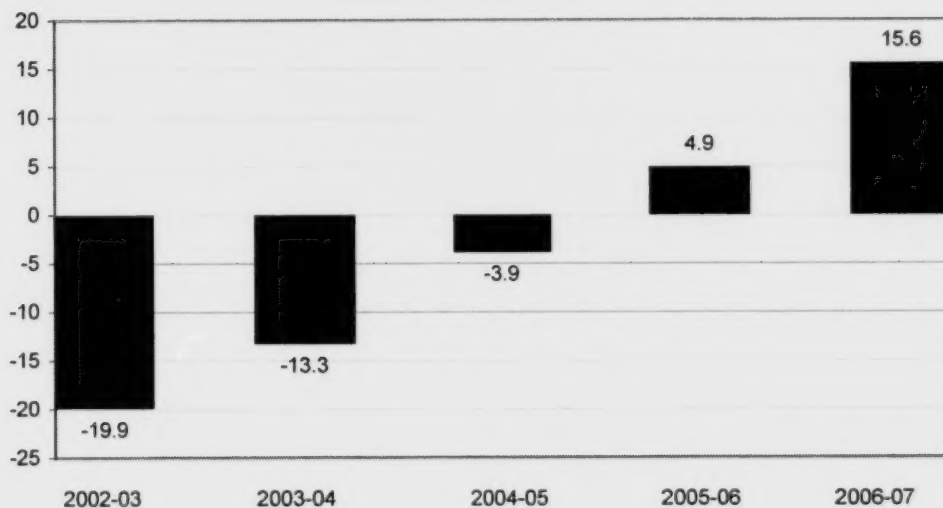
Net income from government business enterprises over the past five years has remained relatively consistent as shown on the following page. During the same period, the province's financial position for these entities has improved by 178.3 per cent from a deficiency of \$19.9 million to a net investment of \$15.6 million. More detailed information about government business enterprises is provided on Schedule 6 on page 67 of this publication.



Net Income from GBEs 2002-03 to 2006-07 (\$ millions)



Investment (Deficiency) in GBEs 2002-03 to 2006-07 (\$ millions)



Expenses

The sources of expenses have remained consistent with the prior year, with the health and education sectors making up 60 per cent of total expenses (59 per cent in 2005-06). Expenses have increased \$476 million over the 2005-06 fiscal year of which Health, and Education and Universities accounted for 73 per cent of the increase with a combined increase of \$347 million. This increase is offset by a decrease in debt servicing costs of \$59 million due to the reduction in average outstanding unmatured debt and reduced interest rates during the year.

Expenses (\$ thousands)

	Estimate 2006-07	Actual 2006-07	Actual 2005-06 (as restated)	Actual vs Estimate	Actual vs Actual
Health and Health Promotion	3,021,591	3,104,344	2,883,169	82,753	221,175
Education and Universities	1,690,411	1,778,796	1,652,780	88,385	126,016
Service Nova Scotia and Municipal Relations	232,685	195,862	171,442	(36,823)	24,420
Community Services	960,825	836,008	815,933	(124,817)	20,075
Transportation and Public Works	301,426	296,011	277,632	(5,415)	18,379
Debt Servicing Costs	994,998	958,744	1,017,779	(36,254)	(59,035)
Pension Valuation Adjustments	33,213	83,137	29,587	49,924	53,550
Other Expenses	827,481	857,721	785,841	30,240	71,880
Total Expenses	8,062,630	8,110,623	7,634,163	47,993	476,460

	Percentage of total		Expenses Per Capita (\$)	
	Actual 2006-07	Actual 2005-06 (as restated)	Actual 2006-07	Actual 2005-06 (as restated)
Health and Health Promotion	38%	38%	3,327	3,087
Education and Universities	22%	22%	1,907	1,770
Service Nova Scotia and Municipal Relations	2%	2%	210	184
Community Services	10%	11%	896	873
Transportation and Public Works	4%	4%	317	297
Debt Servicing Costs	12%	13%	1,028	1,090
Pension Valuation Adjustments	1%	0%	89	32
Other Expenses	11%	10%	919	841
Total Expenses	100%	100%	8,693	8,174
Population (000's)			933	934



Presentation of Estimates

The original Estimates reflect the consolidated results in a format that facilitates departmental management of revenue and expense transactions of the Consolidated Fund, as well as the debate and appropriations process in the House of Assembly. In order to present comparative Estimates on the Consolidated Statement of Operations and Accumulated Deficits as well as in the preceding pages of variance analyses, the original Estimates have been restated to a comparative basis.

The following table illustrates how this is merely a reorganization of the components within the original Estimates to gross up revenues and expenses for the results of all entities within the government reporting entity. Note that the change in presentation causes no impact on the provincial surplus as it is already stated in accordance with generally accepted accounting principles.

Budgetary Summary – Estimates Only**Reconciliation to Consolidated Financial Statements Format**

For the year ended March 31, 2007

(\$ thousands)

	Original Estimates	Reclassification Adjustments	Consolidation Adjustments	Public Accounts Statement 2
Revenue				
Provincial Sources	4,229,418	212,218	(39,078)	4,402,558
Federal Sources	2,359,420	198,800	133,072	2,691,292
Other Revenue	—	77,312	542,113	619,425
Sinking Fund and Public Debt Retirement Fund				
Earnings	—	87,783	—	87,783
Total Revenue	6,588,838	576,113	636,107	7,801,058
Expenses				
Agriculture and Fisheries	38,840	11,900	—	50,740
Community Services	748,123	109,662	103,040	960,825
Education	1,138,222	42,061	274,141	1,454,424
Education-Assistance to Universities	227,872	8,115	—	235,987
Energy	19,712	1,195	2,075	22,982
Environment and Labour	30,064	14,635	—	44,699
Finance	18,517	2,032	4,972	25,521
Health	2,764,479	67,030	142,732	2,974,241
Health Promotion and Protection	36,299	11,051	—	47,350
Justice	116,467	98,802	1,313	216,582
Natural Resources	65,837	2,603	2,580	71,020
Public Service	204,521	7,761	14,675	226,957
Service NS and Municipal Relations	136,261	93,505	2,919	232,685
Tourism, Culture and Heritage	44,401	5,286	2,077	51,764
Transportation and Public Works	291,955	9,413	58	301,426
Restructuring	113,937	3,279	—	117,216
Pension Valuation Adjustment	—	33,213	—	33,213
Debt Servicing Costs	—	963,998	31,000	994,998
	5,995,507	1,485,541	581,582	8,062,630
Pension Valuations Adjustment	33,213	(33,213)	—	—
Debt Servicing Costs	963,998	(963,998)	—	—
Sinking Fund Earnings	(87,783)	87,783	—	—
Total Expenses	6,904,935	576,113	581,582	8,062,630
Deficit from Government Units	(316,097)	—	54,525	(261,572)
Consolidation Adjustments				
Consolidated Fund	46,402	—	(46,402)	—
Health and Hospital Boards Operations	4,100	—	(4,100)	—
School Board Operations	—	—	—	—
Special Purpose Funds	(1,533)	—	1,533	—
Other Organizations	5,556	—	(5,556)	—
Total Consolidation Adjustments	54,525	—	(54,525)	—
Net Income from GBEs	335,064	—	—	335,064
Provincial Surplus	73,492	—	—	73,492

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position reports the balances of financial assets, liabilities, and non-financial assets. It discloses the balances of net direct debt as a key measure of the province's financial position and accumulated deficits as a secondary measure.

Net Direct Debt

Net direct debt is the difference between the province's liabilities and financial assets. It represents the amount of liabilities to be funded from future revenues and taxation. Net direct debt is increased by operating losses and investment in tangible capital assets or other non-financial assets. It is decreased by an operating surplus or decreases in net tangible capital assets and other non-financial assets.

As at March 31, 2007, net direct debt was \$12.4 billion, \$118.0 million higher than the prior year. Although the surplus reduced net direct debt, there was a significantly higher amount of investment in tangible capital assets.

Accumulated Deficits

The accumulated deficits represent the difference between the province's liabilities and both the financial and non-financial assets. Further, it is the sum of all surpluses and deficits incurred to date, calculated according to current accounting policies. The accumulated deficits of \$8.6 billion at the end of 2006-07 were reduced from \$8.8 billion at the end of 2005-06.

Net Direct Debt and Accumulated Deficits (\$ thousands)

	Actual 2006-07	Actual 2005-06 (as restated)	Variance Increase (Decrease)
Financial Assets	2,865,694	2,355,683	510,011
Less: Financial Liabilities	(15,222,899)	(14,594,853)	628,046
Net Direct Debt	(12,357,205)	(12,239,170)	118,035
Non-Financial Assets	3,751,443	3,450,962	300,481
Accumulated Deficits	(8,605,762)	(8,788,208)	(182,446)

Net direct debt per capita increased by \$141 from \$13,104 in 2005-06 to \$13,245 in 2006-07. Net direct debt expressed as a percentage of gross domestic product (GDP) has decreased 2 percentage points due to the increase in GDP.

The surplus allowed a reduction in accumulated deficits of \$185 per capita. Accumulated deficits expressed as a percentage of gross domestic product (GDP) have decreased 2 percentage points due to favourable increases in both factors.

Per Capita \$

Net Direct Debt and Accumulated Deficits

	Actual 2006-07	Actual 2005-06 (as restated)	Variance Increase (Decrease)
Per Capita \$			
Net Direct Debt per capita	(13,245)	(13,104)	141
Accumulated Deficits per capita	(9,224)	(9,409)	(185)
Population (000's)	933	934	
Gross Domestic Product			
Net Direct Debt vs GDP	36%	38%	(2%)
Accumulated Deficits vs GDP	25%	27%	(2%)
GDP at market prices (000s)	33,888,000	32,623,000	

Financial Assets

Financial Assets consist of assets available to discharge existing liabilities or to finance future operations. Financial assets increased \$510.0 million from the previous year. Cash and short-term investments increased by \$481.2 million due to cash accumulated and borrowed in the last quarter of the fiscal year, receipt of Nova Scotia Nominee Program funds on deposit and cash management practices for accounts payable. Loans receivable increased by \$26.6 million over the previous year. Municipal Finance Corporation's loans receivable increased \$21.4 million, primarily due to infrastructure and program loans to municipalities. The Housing Development Corporation had a net increase of \$5.6 million to their mortgage program portfolio. The increases were offset by \$2.0 million of loan forgiveness recorded by the Nova Scotia Gas Market Development Fund on loans to assist the expansion of a distribution system to homes and businesses in the province.

Financial Assets

(\$ thousands)

	Actual 2006-07	Percentage of total	Actual 2005-06 (as restated)	Percentage of total	Variance Increase (Decrease)
Cash and Short-term Investments	873,090	30%	391,861	17%	481,229
Accounts Receivable and Advances	821,509	29%	830,248	35%	(8,739)
Loans Receivable	1,107,683	39%	1,081,131	46%	26,552
Other Financial Assets	63,412	2%	52,443	2%	10,969
Total Financial Assets	2,865,694	100%	2,355,683	100%	510,011

Liabilities

Liabilities consist of debts or monetary obligations owing at March 31 to be paid in the future with cash or other assets. There were some significant amounts of restricted inflows that were recorded as deferred revenue until purpose restrictions are met, including \$83.0 million received for C-48 federal trusts and \$72.1 million received on deposit for the Nova Scotia Nominee Program Fund, offset by a \$34.7 million reduction in the previous year's Wait Times Reduction deferral and recognition into revenue of \$57.4 million of the Offshore Accord Funds. Increased Unmatured Debt was due to debt issued in the last quarter of the fiscal year. Pension and retirement obligations increased \$132.1 million based on valuations including updated member data and actuarial assumptions.

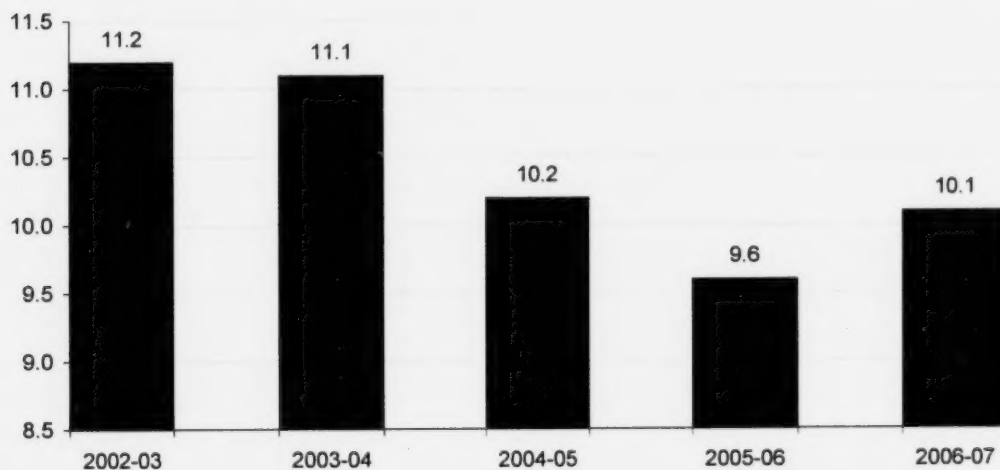
Liabilities (\$ thousands)

	Actual 2006-07	Percentage of total	Actual 2005-06 (as restated)	Percentage of total	Actual vs Actual Increase (Decrease)
Bank Advances and Short-term					
Borrowings	790,909	5%	900,106	6%	(109,197)
Accounts Payable and Accrued					
Liabilities	1,317,078	9%	1,314,779	9%	2,299
Deferred Revenue	1,143,636	8%	1,031,818	7%	111,818
Unmatured Debt of Governmental					
Units	10,107,186	66%	9,627,323	66%	479,863
Federal Equalization Payable Loan	108,290	1%	120,322	1%	(12,032)
Pension, Retirement and Other					
Obligations	1,436,381	9%	1,304,329	9%	132,052
Other Liabilities	319,419	2%	296,176	2%	23,243
Total Liabilities	15,222,899	100%	14,594,853	100%	628,046

A \$1.1 billion decrease in unmatured debt over the past 5 years has resulted in a reduction of \$1,131 on the per capita debt load.

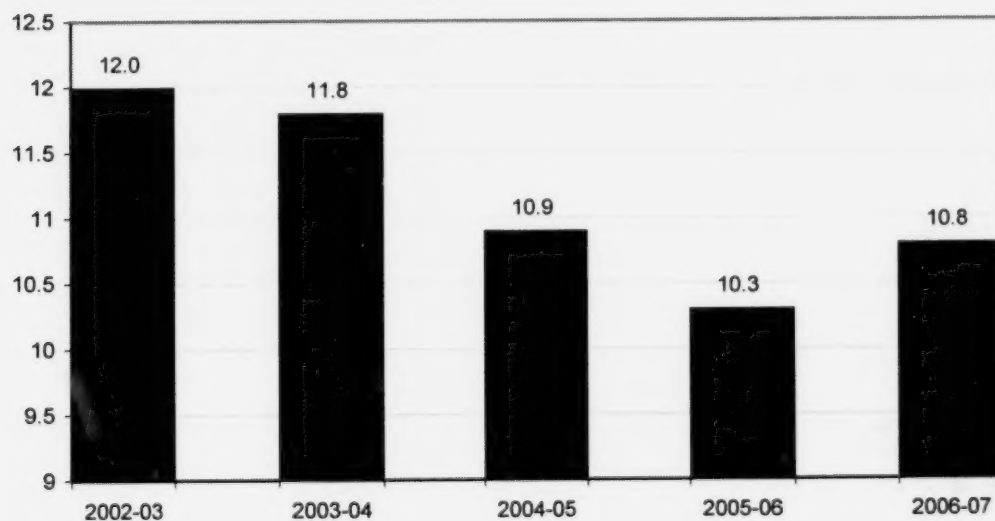
Unmatured Debt

2002-03 to 2006-07 (\$ billions)



Unmatured Debt per Capita

2002-03 to 2006-07 (\$ thousands)



Non-Financial Assets

Non-financial assets are a component of the province's financial position, and are assets to be used during the provision of services in the future. Non-financial assets consist primarily of tangible capital assets but also include supplies inventories and prepaid expenses. In 2006-07, reporting of tangible capital assets has changed from net cost to gross cost. See Note 2 on page 79 for further explanations of this accounting change.

Non-Financial Assets (\$ thousands)

	Actual 2006-07	Percentage of total	Actual 2005-06 (as restated)	Percentage of total	Actual vs Actual Increase (Decrease)
Tangible Capital Assets	3,688,117	98%	3,387,318	98%	300,799
Inventories of Supplies	46,694	1%	47,560	1%	(866)
Prepaid Expenses	16,632	1%	16,084	1%	548
Total Non-Financial Assets	3,751,443	100%	3,450,962	100%	300,481

Tangible Capital Assets

The net book value (cost less accumulated amortization) of tangible capital assets is a major asset to the province, totaling \$3.7 billion at the end of 2006-07 (\$3.4 billion in 2005-06). The Buildings and Land Improvements asset class includes a large portion of capital assets pertaining to provincially owned buildings, schools, and hospitals, as well as a significant number of leased schools and the correctional forensic facility.

Tangible Capital Assets (Net Book Value) (\$ thousands)

	Actual 2006-07	Actual 2005-06	Actual 2004-05
Land	588,120	545,986	538,975
Buildings and Land Improvements	2,155,242	2,094,899	2,052,491
Roads, Bridges and Highways	611,784	458,391	355,860
Machinery, Computers and Equipment	293,703	255,492	240,260
Vehicles and Ferries	39,268	32,550	29,715
Total Tangible Capital Assets	3,688,117	3,387,318	3,217,301

Tangible Capital Assets (Net Book Value)**Increase / Decrease from Prior Year****(\$ thousands)**

	Actual 2006-07	Actual 2005-06
Land	42,134	7,011
Buildings and Land Improvements	60,343	42,406
Roads, Bridges and Highways	153,393	102,531
Machinery, Computers and Equipment	38,211	15,234
Vehicles and Ferries	6,718	2,835
Total Tangible Capital Assets	300,799	170,017

As shown on Schedule 7, page 70, current year acquisitions totaled \$548.2 million (\$399.9 million in 2005-06). Additions to the Buildings and Land Improvements category totaled \$165.3 million (\$145.6 million in 2005-06), of which \$46.7 million belongs to district health authorities and \$69.5 million was school construction. The investment in Roads, Bridges and Highways was \$214.3 million (\$147.2 million in 2005-06). In the year, additions to Machinery, Computers and Equipment were \$109.6 million (\$84.7 million in 2005-06) of which \$52.1 million is attributable to district health authorities and \$52.6 million to the Consolidated Fund.

Investment in tangible capital assets of the various asset classes, and in total, has remained reasonably consistent with the prior year as shown below, with the exception of the increasing investment in provincial roads, bridges and highways offset by a slight decrease in buildings and land improvements.

Tangible Capital Assets (Net Book Value)**Percentage of Total by Category**

	Actual 2006-07	Actual 2005-06	Actual 2004-05
Land	16%	16%	17%
Buildings and Land Improvements	58%	62%	64%
Roads, Bridges and Highways	17%	14%	11%
Machinery, Computers and Equipment	8%	7%	7%
Vehicles and Ferries	1%	1%	1%
Total Tangible Capital Assets	100%	100%	100%



Consolidated Statement of Net Direct Debt

Details of the changes in net direct debt that are reported on this statement include the surplus for the year as well as changes in non-financial assets. In 2006-07, net direct debt increased by \$118.0 million. The \$182.4 million provincial surplus was exceeded by the \$300.8 million net investment in tangible capital assets. Other small changes impacting the balance of net direct debt were the decrease of \$0.9 million in supplies inventory and the increase of \$0.5 million in prepaid expenses.

Consolidated Statement of Cash Flow

The province records its transactions on an accrual basis in accordance with generally accepted accounting principles (GAAP), the timing of which may vary from when actual cash is paid or received. This statement details the increase or decrease in the province's net cash position in terms of sources and uses of cash identified within the following activities: operating, investing, capital, and financing.

During 2006-07, the province's cash position increased by \$494.6 million. A cash inflow of \$1.8 billion was received from debentures issued and sinking fund withdrawals. Additionally, operations generated \$436 million positive impact. These inflows were offset by \$1.1 billion of debt repayment and \$548.2 million in acquisitions of tangible capital assets during the current year.

Cash Flow by Category (\$ thousands)

	Actual 2006-07	Actual 2005-06	Variance Increase (Decrease)
Operating	436,114	810,468	(374,354)
Investing	(26,924)	(57,611)	30,687
Capital	(542,673)	(386,057)	(156,616)
Financing	614,712	(380,151)	994,863
Net Inflows (Outflows)	481,229	(13,351)	494,580

Risk

The province is subject to various forms of risk inherent in the nature of certain financial statement elements and financial markets. Exposure to risk from the use of accounting and other estimates in recording certain transactions is discussed in Note 1(d) of the consolidated financial statements. Financial risks, including foreign currency risk and interest rate risk are discussed on page 36 in the section called Debt Review of the Consolidated Fund.

Selected Highlights of the Consolidated Fund

Budgetary Summary (\$ thousands)

	Actual 2005-06 (as restated)	Estimate 2006-07	Actual 2006-07
Consolidated Fund			
Ordinary Revenue	6,317,986	6,588,838	6,676,852
Less: Net Program Expenses	5,611,004	5,995,507	6,000,298
Pension Valuation Adjustment	30,327	33,213	83,137
Net Debt-Servicing Costs	863,496	876,215	808,238
	6,504,827	6,904,935	6,891,673
	(186,841)	(316,097)	(214,821)
Consolidation and Accounting Adjustments for the Consolidated Fund and Government Units			
Consolidated Fund Consolidation Adjustments	2,496,242	46,402	2,711,633
Health and Hospital Boards Operations	(1,507,414)	4,100	(1,636,246)
School Board Operations	(832,660)	—	(887,048)
Special Purpose Funds	4,030	(1,533)	6,115
Other Organizations	(79,991)	5,556	(137,828)
	80,207	54,525	56,626
Net Income from Government Business Enterprises			
Nova Scotia Gaming Corporations	155,335	144,200	141,717
Nova Scotia Liquor Corporation	181,217	184,500	188,241
Other Enterprises	8,867	6,364	10,683
	345,419	335,064	340,641
Provincial Surplus	238,785	73,492	182,446

Revenues – Consolidated Fund

In total, Revenue for fiscal 2006-07 was higher than estimate by \$88.0 million or 1.4 per cent. Provincial Source revenues were the largest variance at \$83.5 million in excess of estimate.

The table below shows the current and prior year actuals, the current year estimate, and the current year actual variances from estimate. The analysis that follows this chart includes explanations, by revenue source, for the most significant variances.

Revenues

(\$ thousands)

	Actual 2005-06 (as restated)	Estimate 2006-07	Actual 2006-07	Actual vs Estimate Increase (Decrease)	Actual vs Actual Increase (Decrease)
Provincial Sources					
Personal Income Tax	1,568,449	1,652,111	1,678,995	26,884	110,546
Corporate Income Tax	361,508	378,507	392,585	14,078	31,077
Harmonized Sales Tax	1,057,772	1,104,358	1,090,758	(13,600)	32,986
Tobacco Tax	163,617	163,004	145,091	(17,913)	(18,526)
Motive Fuel Taxes	248,252	247,267	245,577	(1,690)	(2,675)
Interest Revenues	81,139	77,312	81,888	4,576	749
Registry of Motor Vehicles	88,173	89,268	91,997	2,729	3,824
Petroleum Royalties	123,850	280,000	269,100	(10,900)	145,250
Offshore Licenses Forfeitures	43,208	—	4,227	4,227	(38,981)
Other Provincial Sources	299,445	237,591	299,783	62,192	338
Prior Years' Adjustments -					
Provincial Sources	16,420	—	12,935	12,935	(3,485)
Total - Provincial Sources	4,051,833	4,229,418	4,312,936	83,518	261,103
Federal Sources					
Equalization Payments	1,343,527	1,385,539	1,385,539	—	42,012
Canada Health Transfer	581,015	611,556	610,477	(1,079)	29,462
Canada Social Transfer	254,964	267,919	264,304	(3,615)	9,340
Wait Times Reduction Funding	18,201	34,666	34,666	—	16,465
Offshore Offset	4,000	—	—	—	(4,000)
Offshore Accord	57,100	57,421	57,421	—	321
Statutory Subsidies	2,319	2,319	2,319	—	—
Infrastructure Trust Funds	—	—	2,468	2,468	2,468
Prior Years' Adjustments -					
Federal Sources	5,027	—	6,722	6,722	1,695
Total - Federal Sources	2,266,153	2,359,420	2,363,916	4,496	97,763
Total - Revenues	6,317,986	6,588,838	6,676,852	88,014	358,866

Variance Analysis – Actual Compared with Estimate

Personal Income Tax

Personal income tax (PIT) revenue exceeded the 2006-07 Estimate by \$26.9 million or 1.6 per cent primarily as a result of an increase in national taxable income that contributed \$30.9 million to the variance. This was partially offset by lower federal estimates for 2006 unapplied tax (\$3.5 million) and increased credits (\$1.0 million).

Corporate Income Taxes

Corporate income tax revenue (CIT) exceeded the 2006-07 Estimate by \$14.1 million or 3.7 per cent as a result of offshore corporate income tax being up by \$7.0 million and an increase in the province's share of national corporate tax.

Petroleum Royalties

Offshore petroleum royalties were \$10.9 million or 3.9 per cent lower than in the 2006-07 Estimate. Higher natural gas prices allowed working interest holders to achieve predetermined return thresholds, thereby resulting in higher royalty rates; however this was offset by production capacity being limited while a new compression deck was being installed.

Offshore Licenses Forfeitures

Although not budgeted, in 2006-07 license holders forfeited \$4.2 million in exploration licenses. This is a significant decrease from the \$43.2 million of revenues in the prior year. Forfeiture is not unusual given the unpredictable nature of the offshore industry. The province's accounting recognition policy is to record forfeiture revenue when a notice of forfeiture is given.

Other Provincial Revenues

Other Provincial Revenues were \$62.2 million or 26.2 per cent higher than the 2006-07 Estimate. Pharmacare premiums of \$43.8 million were not included in the Estimate as a revenue item. They were previously netted against expenditures but accounting for revenues and expenses on a gross basis necessitated the reporting of the premiums as revenue. Similarly, contributions to tangible capital assets (TCA) were not accounted for as revenue in the Estimate. This contributed \$22.6 million to the variance. Increases in taxes on insurance premiums (\$1.5 million) and other smaller increases were primarily offset by a decrease in Large Capital Tax on Non-financial institutions and a decrease in Corporate Capital Tax on financial institutions.

**Tobacco tax**

Tobacco tax revenue was \$17.9 million or 11.0 per cent lower than the 2006-07 Estimate. An increase in the price of tobacco products during the year combined with cessation policies caused consumption to decline by 3.3 per cent. Further declines in revenue are attributed to the increasing prevalence of illegal consumption and smuggling of tobacco products.

Prior Year Adjustments - Provincial Sources

Prior year adjustments of \$12.9 million primarily reflect updated federal information on unapplied personal income tax in 2003 and 2005, offset by the federal government's re-estimation of the province's share of national corporate taxable income in 2005 and new federal estimates of the HST pool and revenue bases.

Canada Health Transfer

Canada Health Transfer revenues are \$1.1 million lower than the 2006-07 Estimate due mainly to a decline in Nova Scotia's share of national population from 2.89 per cent to 2.87 per cent.

Canada Social Transfer

Canada Social Transfer revenues are \$3.6 million under the 2006-07 Estimate. This decline is largely driven by a \$3.0 million revenue deferral to 2007-08 plus a decrease due to a decline in Nova Scotia's share of national population from 2.89 per cent to 2.87 percent.

Prior Year Adjustments - Federal Sources

Prior year adjustments of \$6.7 million included increased Canada Health and Social Transfer entitlements based on updated national estimates of the province's share of Basic Federal Tax for the 2004-05 and 2005-06 fiscal years.

Harmonized Sales Taxes

Harmonized Sales Tax (HST) revenue was \$13.6 million or 1.2 per cent lower than the 2006-07 Estimate. Growth in revenues was consistent with historical rates however, the inclusion of Your Energy Rebate as a reduction of HST revenue reflected an accounting change from the original Estimate where the rebate was included as an expenditure item for Service Nova Scotia and Municipal Relations.

Net Program Expenses – Consolidated Fund

Overall, Net Program Expenses exceeded the original budget by \$4.8 million, or 0.1 per cent during fiscal 2006-07.

The listing below contains the current and prior year actuals, the current year estimate, and the current year variance of estimate versus actual. The analysis that follows this chart includes explanations, by department, for the most significant variances.

Net Program Expenses

(\$ thousands)

	2005-06 Actual (as restated)	2006-07 Estimate	2006-07 Actual	Actual vs Estimate Increase (Decrease)
Departments				
Agriculture	43,483	38,840	40,445	1,605
Community Services	711,464	748,123	741,670	(6,453)
Education	1,071,898	1,138,222	1,138,128	(94)
Assistance to Universities	223,828	227,872	260,014	32,142
Energy	20,615	19,712	15,766	(3,946)
Environment and Labour	27,059	30,064	28,391	(1,673)
Finance	15,296	18,517	17,132	(1,385)
Health	2,616,970	2,764,479	2,808,998	44,519
Health Promotion and Protection	30,455	36,299	38,945	2,646
Justice	104,761	116,467	112,184	(4,283)
Natural Resources	63,742	65,837	66,256	419
Public Service	175,172	204,521	183,631	(20,890)
Service Nova Scotia and Municipal Relations	108,123	136,261	102,492	(33,769)
Tourism, Culture and Heritage	44,803	44,401	48,431	4,030
Transportation and Public Works	268,028	291,955	287,718	(4,237)
Restructuring Costs	85,665	113,937	112,060	(1,877)
Gain on the Disposal of Assets	(357)	—	(1,963)	(1,963)
Total Net Program Expenses	5,611,004	5,995,507	6,000,298	4,791

Additional appropriations require approval by the Governor-in-Council within 90 days of the issuance of these Public Accounts. These amounts are summarized by appropriation on pages 34 and 35.

The consolidation of departmental expenditures with that of governmental units provides the total expenditures for which government is accountable. This table provides the net program expenses by department prior to the consolidation, as compared to the prior fiscal year and the budget, which are the Estimates as approved by the Legislature in the annual Appropriations Act.

The 2005-06 Actuals for the Departments of Education and Transportation and Public Works have been restated to include increased amortization expense due to a prior period adjustment to gross up tangible capital assets. Details on the nature of this adjustment are included in Note 2 of the Consolidated Financial Statements.

The 2005-06 Actual for the Department of Health has been restated to include increased amortization expense as well as to move Pharmacare revenues, previously netted against expenses, to revenues.



Variance Analysis - Actual Compared With Estimate

Agriculture

Overall, departmental expenses were \$1.6 million over budget. This was as a result of the need to comply with generally accepted accounting principles to reflect the Farm Loan Board's bad debt expenses of \$2.0 million at gross. Correspondingly, the loan's interest revenue has also been grossed up and is reflected in the revenue section of the province's records. This accounting adjustment was partially offset at year end by an inventory adjustment.

Community Services

Overall, departmental expenses were \$6.5 million less than budget. Additional spending included \$8.7 million to provide increased services for Persons with Disabilities and \$11.6 million for additional Public Housing Services including capital related expenditures and funding for low income repair programs. This was offset by savings of \$6.4 million in Family and Community Support programs, \$18.0 million savings related to a reduction in clients for the Income Assistance Program, and salary and operational savings of \$2.4 million.

Education

An over expenditure arising from improved Student Assistance programs was offset by savings in a number of other areas within the department resulting in a net surplus of \$0.094 million.

Assistance to Universities

The 2006-07 actual for this appropriation was \$32.1 million over budget as a result of the following: the payment of \$22.3 million as a result of an amendment to the Memorandum of Understanding (MOU) on university funding and \$10.3 million to fund the \$440 bursary for Nova Scotia students implemented in January 2007. Recoveries for regional programs were higher than estimated which partially offset the MOU increases.

Energy

The departmental expenses were \$3.9 million less than budget primarily as a result of a \$1.9 million adjustment of the previous year payable for Smart Energy Choices program and \$1.6 million savings in Conserve Nova Scotia as the Agency and its programs were being operationalized. Net operating expenses were approximately \$0.4 million less than budget.

Environment and Labour

Vacancies and administrative efficiencies throughout the department plus unanticipated refunds from insurers for excess amounts in the Program for Older Worker Adjustment that ended in 1997 more than offset the lower-than-anticipated revenues from "fees and other charges" and increased amortization due to the PSAB ruling on recording assets at gross cost. The net result was departmental expenses of \$1.7 million less than budget.

Finance

Salary savings due to vacancies and general operating savings resulted in actual expenses that were \$1.4 million lower than the budget.

Health

For 2006-07 the department was \$44.5 million over the original budget. The majority of this difference was due to a change in accounting policy during the year. Generally accepted accounting principles require reporting of revenues and expenses at gross, the \$41.7 million in Pharmacare premiums that were netted against Pharmacare costs in the Estimate was therefore recorded as revenue in the actuals. The resulting unfavourable variance in expenses is offset by a favourable variance in revenues.

The remaining \$2.8 million expense variance is a result of the approval of \$11.6 million for District Health Authorities as a result of the union settlement; a \$4.5 million increase for the long term care sector for beds, lifts and a shortfall in resident accommodation charges; and, \$4.4 million for home care services for increased travel costs, guaranteed hours and utilization increases.

These funding increases were partially offset by an \$8.0 million reduction in drug costs as fewer new drugs come to market; savings of \$4.6 million as a result of vacancy management, a \$3.7 million increase in revenue recovery related to out of province patients and \$1.4 million in various other operational savings across the department.

Health Promotion and Protection

The 2006-07 actual for this appropriation was \$2.6 million over budget as a result of funding for the Commonwealth Games bid of \$1.5 million and a grant to Canada Games 2011 of \$3.0 million. This additional spending was offset by various operational and salary savings.

Justice

Overall, the department's actual expenses were \$4.3 million under budget. There was a net reduction in head office and administrative expenses of \$1.4 million as a result of salary savings through vacant positions and an unexpected federal recovery of \$0.9 million. Court Services were under budget by \$1.6 million as a result of court fees being higher than expected. Policing and Victim Services had a net reduction of \$1.1 million due to reduced operating and salary costs of \$0.2 million while recoveries were \$0.9 million higher than estimated. There were minor variances in Correctional Services that resulted in net savings of \$0.2 million.



Natural Resources

The department was \$0.4 million over budget as a result of a year end inventory adjustment of \$1.1 million offset by various vacancies and operational savings.

Public Service

The significant variances of the Public Service divisions include the following:

Government Contributions to Benefit Plans

Based on the year-end valuations, there was a \$17.4 million positive adjustment in the province's liabilities for workers' compensation self-insurance and chronic pain, and LTD plan. Offsetting these reductions was a \$2.0 million increase in additional pension contributions and vacation accrual.

Legislative Services

The \$4.3 million decrease from the original budget is primarily the result of the Provincial election held on June 13, 2006, which caused a reduction in various legislative expenses as well as impacting the reorganization of the office in that it did not proceed as quickly as originally anticipated.

Nova Scotia Business Inc

The actual expenses were \$10.6 million under budget due to a \$9.9 million reduction in the requirements for strategic investment funds through the payroll rebates and a reduction in the capital grant for the Debert project of \$0.7 million.

Office of Economic Development

The actual for this appropriation is \$9.9 million over the budget. This variance is attributable to additional spending of \$8.0 million for the Nova Scotia Research and Innovation Trust Fund, an increase in the Industrial Expansion Fund of \$5.9 million and various approved regional and economic development projects for \$1.8 million. These increases are partially offset by a grant reduction of \$2.4 million to Stora Forest Industry Limited, a reduction of \$1.3 million in capital grants for InNOVACorp and miscellaneous salary, operational and program grant savings throughout the department of \$2.1 million.

Service Nova Scotia and Municipal Relations

Overall, the actual for the department was \$33.8 million under the original budget. This reduction is primarily because of an accounting change that affected the "Your Energy Program" that was originally budgeted as a \$28.1 million expense in the Department but subsequently revised to be a revenue reduction against the province's HST revenue. The actual operating costs of the administration of the program were less than anticipated and when combined with vacancy management and other operational savings contributed \$5.7 million to the surplus.

Tourism, Culture and Heritage

During the fiscal year, additional funding was made available for the transfer of ownership of Upper Clements Park \$1.4 million; financial assistance for the Joggins Fossil Cliffs Interpretive Centre \$2.1 million; one time funding of \$0.3 million for the Cape Breton Craft and Design Center; and, \$0.4 million in community investments in the tourism and culture sectors. Offsetting these additional costs were salary and operational savings which resulted in the department being \$4.0 million over budget.

Transportation and Public Works

Overall, departmental expenses were \$4.2 million less than the original budget. There was \$3.2 million in additional amortization as a result of additional funding approved for highway construction and the PSAB ruling on gross costs and an increase of \$0.6 million in Risk Management Insurance Services. The additional spending was more than offset by \$5.0 million in savings due to delays in the highway maintenance program and reductions in snow and ice control, a decrease in building maintenance programs of \$1.7 million, a reduction in Environmental Remediation of \$0.4 million and savings due to staff turnover and the management of vacant positions and general savings in operating expenses.

Restructuring Costs

Wage settlements that exceeded the original budget more than offset the savings in workforce adjustment costs and government restructuring and the receipt of additional unallocated recoveries.

Pension Valuation Adjustment – Consolidated Fund

The Pension Valuation Adjustment was higher than estimate by \$49.9 million due to updated actuarial valuations of the various retirement liabilities.

Tangible Capital Assets – Consolidated Fund

Commencing in 2006-07 the province's policy is to capitalize the gross cost of its tangible capital assets. Recoveries from outside sources are recognized as revenue in the year the asset is purchased. Figures for 2005-06 have been restated on a comparable basis. Under the province's Tangible Capital Assets policy, a percentage of the original cost of an asset is charged to expenses in each year of the useful life of the asset. This charge is called amortization, which does not commence until the asset is available for use. Departments are required to budget for tangible capital asset purchases and the resulting amortization from the acquisition of these assets.

The cost of the estimated purchases of tangible capital assets is voted separately in the Capital Purchase Requirements appropriation, and the departmental details are noted below.

Gross Capital Purchases (\$ thousands)

Department	Estimate 2006-07	Actual 2006-07	Variance Increase (Decrease)
Agriculture and Fisheries	685	588	(97)
Community Services	3,100	3,286	186
Education	86,550	108,165	21,615
Energy	—	34	34
Environment and Labour	1,714	741	(973)
Finance	9,445	9,963	518
Health	12,468	14,225	1,757
Natural Resources	18,900	35,130	16,230
Public Service	846	1,397	551
Service Nova Scotia and Municipal Relations	7,279	7,888	609
Tourism, Culture and Heritage	92	84	(8)
Transportation and Public Works			
Highways and Bridges	193,138	227,657	34,519
Buildings and Infrastructure	24,249	23,956	(293)
Total	358,466	433,114	74,648

Overall, spending in the Capital Purchase Requirements appropriation exceeded budget by \$74.6 million, in 2006-07, primarily as a result of the approval of additional funding for highway construction and adjustments in the construction schedule for new schools, and additions and alterations to existing schools

Amortization

(\$ thousands)

Department	Estimate 2006-07	Actual 2006-07	Variance Increase (Decrease)
Agriculture and Fisheries	693	577	(116)
Community Services	599	1,026	427
Education	51,198	51,611	413
Energy	11	16	5
Environment and Labour	35	49	14
Finance	3,092	3,005	(87)
Health	11,484	13,912	2,428
Natural Resources	1,332	1,332	—
Public Service	892	826	(66)
Service Nova Scotia and Municipal Relations	213	330	117
Tourism, Culture and Heritage	1,836	1,460	(376)
Transportation and Public Works			
Highways and Bridges	589	584	(5)
Buildings and Infrastructure	76,522	79,941	3,419
Total	148,496	154,669	6,173

This schedule reflects the budget and actual for amortization charged to operations for assets acquired in 2006-07 and in prior years. The Estimate for amortization expense was based on net cost of tangible capital assets as per the previous accounting policy. In 2006-07, the policy changed and actual amortization expense is calculated based on the gross cost of tangible capital assets. Some of the variance is due to this policy change.



Additional Appropriations

Relative to the Appropriations Act, 2006 for the fiscal year ended March 31, 2007

(\$ thousands)

R#*	Net Program Expenses	Original Estimate	Additional Approved	Actual	Variance	Additional Appropriations Required
1	Agriculture	38,840	—	40,445	1,605	1,605
2	Community Services	748,123	—	741,670	(6,453)	—
3	Education	1,138,222	—	1,138,128	(94)	—
4	Assistance to Universities	227,872	32,613	260,014	(471)	—
5	Energy	19,712	—	15,766	(3,946)	—
6	Environment and Labour	30,064	—	28,391	(1,673)	—
7	Finance	18,517	—	17,132	(1,385)	—
9	Health	2,764,479	—	2,808,998	44,519	44,519
10	Health Promotion and Protection	36,299	2,712	38,945	(66)	—
11	Justice	116,467	—	112,184	(4,283)	—
12	Natural Resources	65,837	—	66,256	419	419
13	Communications Nova Scotia	7,385	—	7,229	(156)	—
14	Emergency Management Office of Nova Scotia	1,406	—	1,735	329	329
15	Executive Council	25,114	—	25,442	328	328
16	FOIPOP Review Office	256	—	248	(8)	—
17	Government Contributions to Benefit Plans	8,052	—	(7,343)	(15,395)	—
18	Human Rights Commission	1,987	—	2,071	84	84
19	Legislative Services	31,903	—	27,630	(4,273)	—
20	Nova Scotia Advisory Council on the Status of Women	868	—	834	(34)	—
21	Nova Scotia Business Inc.	34,071	—	23,443	(10,628)	—
22	Nova Scotia Fisheries and Aquaculture	5,031	—	4,957	(74)	—
23	Nova Scotia Police Review Board	353	—	338	(15)	—
24	Nova Scotia Securities Commission	1,928	—	1,550	(378)	—
25	Nova Scotia Utility and Review Board	3,264	—	3,640	376	376
26	Office of Economic Development	60,115	9,330	70,035	590	590
27	Office of the Auditor General	2,892	—	2,830	(62)	—
28	Office of the Ombudsman	1,384	—	1,220	(164)	—
29	Public Prosecution Service	17,393	—	16,712	(681)	—
30	Senior Citizen's Secretariat	1,119	—	1,060	(59)	—
31	Service Nova Scotia and Municipal Relations	136,261	—	102,492	(33,769)	—
32	Tourism, Culture and Heritage	44,401	4,037	48,431	(7)	—
33	Transportation and Public Works	291,955	—	287,718	(4,237)	—
34	Restructuring Costs	113,937	—	112,060	(1,877)	—

Additional Appropriations (continued)

Relative to the Appropriations Act, 2006 for the fiscal year ended March 31, 2007

(\$ thousands)

R#*	Net Program Expenses	Original Estimate	Additional Approved	Actual	Variance	Additional Appropriations Required
Other Appropriations						
8	Debt-Servicing Costs	963,998	—	929,828	(34,170)	—
35	Pension Valuation Adjustment	33,213	—	83,137	49,924	49,924
36	Capital Purchase Requirements (net cost)	335,000	71,500	410,568	4,068	4,068
37	Sinking Fund Installments and Serial Retirements	97,004	—	94,259	(2,745)	—

Note: Section 28(3) of the Provincial Finance Act requires that any additional spending authority required must be approved by the Governor-in-Council no later than 90 days after the tabling of the Public Accounts.

*Refers to the Resolution Number in the Appropriations Act, 2005

Additional Appropriation Approved during 2006-07

Some additional appropriations were approved during 2006-07, as indicated in the table above. The details of the additional requests are as follows:

Appropriation Area	Order in Council	Amount
Assistance to Universities	2007-189	32,613
Health Promotion and Protection	2007-189	2,712
Office of Economic Development	2007-189	9,330
Tourism, Culture and Heritage	2007-189	4,037
Capital Purchase Requirements	2007-189	71,500



Debt Review of the Consolidated Fund

In fiscal 2006-07, the Province of Nova Scotia posted a surplus of \$182.4 million. The net direct debt of the province as of March 31, 2007 was \$12.4 billion, an increase of \$118.0 million from the net direct debt at the end of fiscal 2005-06. The province's net direct debt to gross domestic product ratio decreased to 36.5 per-cent at March 31, 2007 from 37.5 per cent a year earlier.

Credit Ratings

Moody's Investor Services upgraded the province's credit rating from A1 to Aa2 with a stable outlook on November 14, 2006. This rating upgrade was given by Moody's as part of the firm's joint-default analysis of Canadian provinces in which several other provinces also received upgrades. The analysis includes an assessment of the likelihood of financial support from the federal government in times of extraordinary financial distress. The province's ratings with both Standard and Poor's and Dominion Bond Rating Service remained unchanged from the previous year, both with a stable outlook.

Credit Ratings June 1, 2007

Province	Moody's Investors Service Inc.	Rating Agency Standard and Poor's	Dominion Bond Rating Service
Nova Scotia	Aa2	A+	A
Newfoundland and Labrador	Aa2	A	A (low)
Prince Edward Island	Aa2	A	A (low)
New Brunswick	Aa1	AA-	A (high)
Quebec	Aa2	A+	A (high)
Ontario	Aa1	AA	AA
Manitoba	Aa1	AA-	A (high)
Saskatchewan	Aa1	AA	AA (low)
Alberta	Aaa	AAA	AAA
British Columbia	Aaa	AAA	AA (high)
Canada	Aaa	AAA	AAA/AA (high)

Capital Markets Issuance Initiatives

Despite having balanced budgets, the province is required to borrow funds on an ongoing basis both to refinance maturing debt and to meet non-budgetary capital requirements. Budget surpluses act to reduce borrowing requirements. The province maintains the capability to borrow funds for future requirements should financial market conditions be favourable. The province also maintains a large asset position in discretionary funds. These funds are available to repay maturing debt and to reduce the province's borrowing requirements when required.

The Province of Nova Scotia borrowed \$1,531.1 million in fiscal year 2006-07, an increase over the budget estimate of \$908.6 million. This increase in borrowing was due in part to pre-financing to take advantage of historically low long-term interest rates and for government's financing of \$107.2 million for the Nova Scotia Municipal Finance Corporation.

The province's borrowing program was achieved through the issuance of one 30-year domestic public issue of \$200.0 million; one 10-year domestic public issue of \$300.0 million; two domestic retail structured notes issued totaling \$35.0 million; two 15-year domestic promissory notes issued under the province's medium-term note program totaling \$300.0 million; and the roll-over of a \$109.6 million Canada Pension Plan Investment Board debt issue. The province also returned to the US\$ global debt market this year with a US\$500 million 10 year debenture issue which raised C\$586.5 million. The province maintains access to a diversity of borrowing sources, both domestic and international. This access is a key factor in maintaining a broad demand for Nova Scotia debt issues and achieving lower borrowing costs.

Financial Risk Management

Foreign Currency Risk

In order to more fully access global capital markets, the Province of Nova Scotia has the ability to borrow in currencies other than the Canadian dollar. Although the province has dramatically reduced its exposure to foreign currencies over the past few years, some exposure to the US dollar remains. The province has reduced its exposure to foreign currency debt in recent years through the active use of derivatives where appropriate or opportune and by the accumulation of US dollar-denominated assets held in sinking funds as required by covenants on existing US\$ issues. As at March 31, 2007, the province's foreign currency exposure stood at 10.2 per cent on a gross basis (down from 13.1 per cent at March 31, 2006), and 5.9 per cent net of USD sinking funds (down from 8.9 per cent at March 31, 2006)

GAAP requires that all financial amounts in the financial statements be presented in Canadian funds. Conversion of foreign currency amounts outstanding is calculated annually at March 31. This conversion results in a foreign currency gain or loss from year to year as the currency exchange rates fluctuate. As described in Note 1(c) on page 77, the foreign exchange gains or losses on long-term financial items are amortized over the remaining life of the item. At March 31, 2007, un-amortized foreign exchange was a net gain to the province of \$118.9 million.

Interest Rate Risk

As a net debtor in financial markets, the province is exposed to the risks posed by movements in interest rates. The province is exposed to interest rate risk as maturing debenture issues are refinanced at current market rates. Some exposure to fluctuating short-term rates is maintained as a policy variable on the debt portfolio. The province has set exposure limits on interest rate risk and maintains control over this exposure through the active management of its gross debt and asset portfolios.

The debt portfolio's exposure to floating interest rates increased to 18.0 per cent for the fiscal year ended March 31, 2007 (up from 15.5 per cent at March 31, 2006). This level is at the mid-range of the province's 10.0 to 30.0 per cent floating rate exposure policy range. The province is able to exercise tight control of this variable in the portfolio by maintaining access to capital markets and through its extensive derivative capabilities. With 82.0 per cent of the total principal in fixed-rate form (down from 86.5 per cent at March 31, 2006), there will be stability in debt-serving costs in future years. At March 31, 2007, the average term to maturity of the gross debt portfolio stood at 11.8 years, 0.9 years longer than a year earlier.

Debt Servicing Costs – Consolidated Fund

Net debt-servicing costs of the Consolidated Fund in fiscal 2006-07 were \$808.2 million, a decrease of \$56.6 million from the previous year and \$69.4 million lower than the estimate. Net debt-servicing costs were \$69.4 million lower than budget for the year. Contributing to this reduction was the province's swapping of US dollar denominated debt to Canadian dollars at lower than forecast rates, a lower than forecast short-term borrowing position and the hedging of in-year US\$ requirements at lower than budget exchange rates.

Net Debt-Servicing Costs

(\$ millions)

	Actual 2005-06 (as restated)	Estimate 2006-07	Actual 2006-07	Actual vs Estimate Variance Increase (Decrease)
Interest on Long-Term Debt	816,450	797,492	772,594	(24,898)
General Interest	45,946	42,323	30,897	(11,426)
Interest on Pension, Retirement and Other Obligations	125,495	124,183	126,337	2,154
Gross Debt-Servicing Costs	987,891	963,998	929,828	(34,170)
Less: Sinking Fund Earnings	(124,395)	(87,783)	(121,590)	33,807
Net Debt-Servicing Costs	863,496	876,215	808,238	(67,977)

Debenture Debt

The Consolidated Fund's net debenture debt (outstanding debentures less sinking funds and the Public Debt Retirement Fund) was \$9.4 billion in Canadian dollar equivalent as at March 31, 2007. The increase in this measure from \$8.9 billion a year earlier is due to the issuance of \$586.5 million raised through a US\$ global issue. The proceeds from this issue were held in short-term investments by the Consolidated Fund and are reported in Statement 1 of this document. The value of the foreign currency debt on March 31 and the net-hedged value on March 31 of the previous year will fluctuate from year to year based on exchange rates in effect at year-end. The difference in these values is reflected in the calculation of net debenture debt. This year that amount is a \$139.2 million dollar reduction to net debenture debt. The Province of Nova Scotia provides sinking fund installments for certain term debt issues. Annual sinking fund installments generally range from 1.0 per cent to 3.0 per cent of the original issue, but may vary slightly from year to year based on actual and anticipated rates of return on sinking fund assets. Installments are designed to fully fund the issue over the life of the issue. Sinking funds are treated as trust funds and are used solely for debt retirement. Sinking funds to US dollar debt are invested in US dollar-denominated securities.

Outstanding Debentures – (CDN\$ Equivalents)

(\$ millions)

	Actual 2005-06	Actual 2006-07
Debentures Payable in Canadian Dollars		
Canada Pension Plan Investment Fund	1,079	1,079
Other Issues	8,310	9,023
United States Dollars	1,580	1,215
Less: Sinking Funds and Public Debt Retirement Fund	(2,095)	(1,907)
Net Debenture Debt	8,874	9,410

Borrowing Powers

Long-term debt issued by way of debentures and medium-term notes is subject to a legislative authority to borrow through the Appropriations Act. Unused portions of these authorities carry forward to be used in future years. In fiscal 2006-07, the province borrowed (face value) \$1,531.1 million in long-term debentures, which was applied to authority remaining from 2003-04, 2004-05 and 2006-07.

Statement of Borrowing Powers

As at March 31, 2007

(\$ millions)

	Actual 2005-06	Actual 2006-07
Balance of Authority from Previous Fiscal Years	1,943,932	1,012,180
Authority Approved for the Fiscal Year	—	1,000,000
Total Authority at Beginning of the Fiscal Year	1,943,932	2,012,180
Less: Authority Used in the Previous Fiscal Year	931,752	
Less: Authority Used in the Current Fiscal Year		
Promissory Note P100		20,000
Promissory Note P101		15,000
Promissory Note P102		100,000
Promissory Note P103		200,000
Debenture Series B8		200,000
Debenture Series B9		300,000
Debenture Series CP43		109,641
Debenture Series D1		586,500
Balance of Authority at end of fiscal year	1,012,180	481,039

Additional Borrowing Powers

Cape Breton Industrial Assistance Act, Chapter 60, R.S.N.S. 1989

Housing Act, Chapter 211, R.S.N.S. 1989

Housing Development Corporation Act, Chapter 213, R.S.N.S. 1989

Municipal Finance Corporation Act, Chapter 301, R.S.N.S. 1989

Sydney Steel Corporation Act, Chapter 456, R.S.N.S. 1989



The Economy

Economic Indicators

Economic indicators for the calendar year 2006 form the basis of the following discussion for the year ended March 31, 2007. The data for both 2006 and 2007 are forecasts prepared by the Department of Finance. The 2007 forecast is provided without any further analysis, for information purposes only.

	2002	2003	2004	2005	2006 (Forecast)	2007 (Forecast)
(\$ millions)						
Gross Domestic Product at Market Prices	27,082	28,801	29,859	31,344	32,623	33,888
Annual % Change	4.5%	6.3%	3.7%	5.0%	4.1%	3.9%
(chained 1997 \$ millions)						
Gross Domestic Product at Market Prices	24,652	24,929	25,131	25,534	26,045	26,655
Annual % Change	4.0%	1.1%	0.8%	1.6%	2.0%	2.3%
(\$ millions)						
Personal Income	23,773	24,468	25,236	26,278	27,430	28,407
Annual % Change	2.9%	2.9%	3.1%	4.1%	4.4%	3.6%
Consumer Price Index						
Nova Scotia						
Annual % Change	3.0%	3.4%	1.8%	2.8%	2.1%	2.1%
Population (000s)	935	937	938	936	934	933

Sources: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB
 Statistics Canada Quarterly Demographics Statistics, Cat. No. 91-002-XPB
 Nova Scotia Department of Finance

Economic Performance

Output

The Nova Scotia economy continued to grow in 2006, with an estimated real GDP growth rate of 2.0 per cent, a 0.4 percentage point increase from 2005. Growth was mostly driven by strong domestic demand, with imports growing at a faster pace than exports, along with higher prices putting downward pressure on real GDP growth. The nominal GDP growth rate, adjusted for higher prices, was 4.1 per cent.

Final domestic demand is estimated to have increased by 5.3 per cent. Supporting this growth was steady consumer spending along with solid growth from capital investments.

Residential capital expenditures increased 4.5 per cent. Most of this growth was driven by the 8.6 per cent increase in renovations, while housing starts rose slightly to 2.5 per cent.

Capital expenditures on machinery and equipment increased 3.3 per cent, reflecting to some degree the rapid rise of the Canadian dollar. Non-residential construction rose 16.1 per cent. Government spending on goods and services increased by 4.4 per cent in 2006, following an increase of 6.7 per cent in 2005.

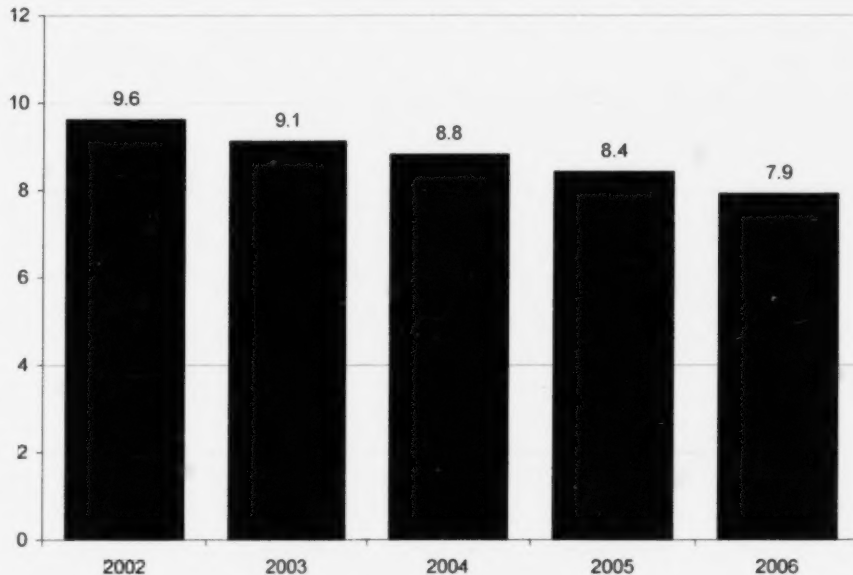
Exports of goods and services increased 2.7 per cent, as compared to 3.8 per cent in 2005. Continued growth for the North American economy helped to counter the dampening impacts of the higher exchange rate. A 5.3 per cent increase in total imports resulted in a higher trade deficit in 2006, putting downward pressure on economic growth. More imports reflect the value of the higher exchange rate, as firms purchased more machinery and equipment. This increase in machinery and equipment investment will help improve productivity in the long run.

Labour Markets

Employment decreased in 2006 by 0.3 per cent to 441,800 jobs. There was a net loss of 1,300 jobs, and the labour force also declined by 0.8 per cent. The decline in the labour force was also noted in the participation rate, for people employed or actively seeking employment, which decreased by 0.7 percentage points to 62.9 per cent in 2006.

With employment declining at a slower pace than the labour supply, the unemployment rate dropped in 2006 to 7.9 per cent, compared to 8.4 per cent for 2005.

Unemployment Rate 2002 to 2006 (Per cent)



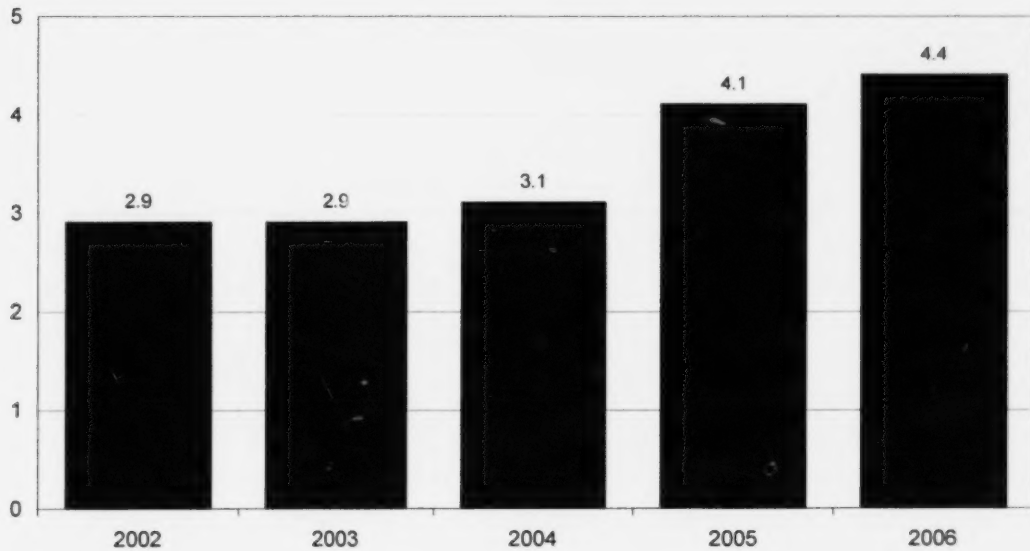
Source: Statistics Canada, 2006 Labour Force Historical Review, Cat. No. 71F0004XCB, February 2007.

Consumer Spending and Income

Personal expenditures on goods and services increased 5.3 per cent in 2006, up slightly from 5.1 per cent in 2005, while retail sales increased 6.9 per cent. The additional consumer spending was concentrated in non-durable goods and services, with each reporting an increase of 4.6 per cent and 5.4 per cent respectively.

Nova Scotians experienced strong personal income growth in 2006, at 4.4 per cent, compared to 4.1 per cent in 2005. Growth of labour income, the largest share of personal income, was lower than in 2005 (4.1 per cent compared to 4.5 per cent), but this decrease was partially offset by higher interest, dividends payments and personal transfer payments.

Personal Income Growth
2002 to 2006
(per cent)



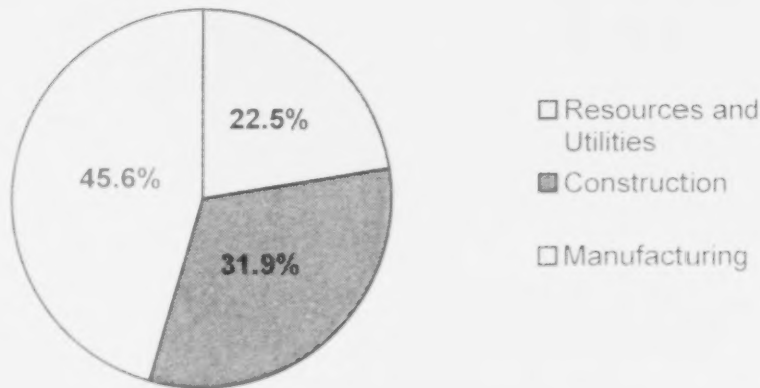
Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB

Industry Employment Performance

Goods Industries

Employment in goods-producing industries declined 6.0 per cent in 2006, accounting for 19.4 per cent of the total employment in the Nova Scotia economy in 2006.

Employment by Goods Industries 2006 (as a Percentage of Total Goods Industries Employment)



Source: Statistics Canada, 2006 Labour Force Historical Review Cat. No. 71F0004XCB, February 2007.

The construction sector saw employment decrease 1.4 per cent. Employment growth in the manufacturing sector was down by 3.0 per cent, while manufacturing shipments declined 4.9 per cent. The agriculture, forestry and fishing sectors all reported decreases (19.0 per cent, 46.3 per cent and 10.0 per cent respectively). The large decline for the forestry sector reflects to a large degree the closure of a major pulp and paper mill in 2006 due to a labour dispute. Although the mining, oil, and gas extraction sector saw about 500 new jobs, there was a decrease of 8.2 per cent in real GDP growth for the sector. The growth in jobs comes from further onshore development of gold, zinc and lead while the fall in output reflects slower natural gas production.

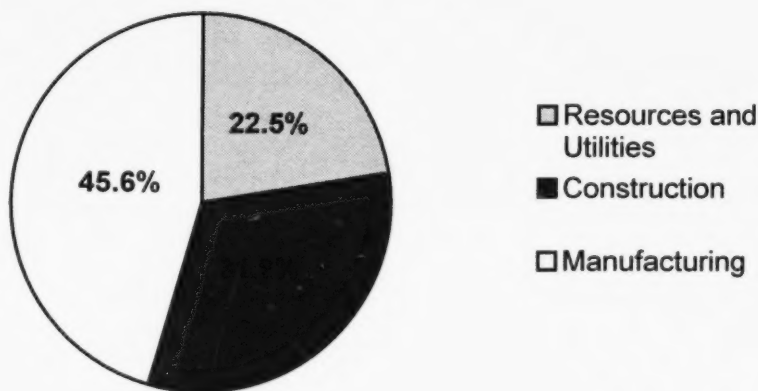


Industry Employment Performance

Goods Industries

Employment in goods-producing industries declined 6.0 per cent in 2006, accounting for 19.4 per cent of the total employment in the Nova Scotia economy in 2006.

Employment by Goods Industries 2006 (as a Percentage of Total Goods Industries Employment)



Source: Statistics Canada, 2006 Labour Force Historical Review Cat. No.71F0004XCB, February 2007.

The construction sector saw employment decrease 1.4 per cent. Employment growth in the manufacturing sector was down by 3.0 per cent, while manufacturing shipments declined 4.9 per cent. The agriculture, forestry and fishing sectors all reported decreases (19.0 per cent, 46.3 per cent and 10.0 per cent respectively). The large decline for the forestry sector reflects to a large degree the closure of a major pulp and paper mill in 2006 due to a labour dispute. Although the mining, oil, and gas extraction sector saw about 500 new jobs, there was a decrease of 8.2 per cent in real GDP growth for the sector. The growth in jobs comes from further onshore development of gold, zinc and lead while the fall in output reflects slower natural gas production.

Services Industries

Nova Scotia is predominantly a service-sector economy, with 80.6 per cent of Nova Scotia's employment in 2006. Most of the employment growth in 2006 occurred in services industries, which registered a 1.2 per cent gain in employment.

The educational, health care, and social assistance services sector is the largest component of the services sector, with 26.3 per cent of the employment. Employment for health care and social assistance reported an increase of 5.5 per cent. Educational services declined by 1.7 per cent during 2006. The trade sector (retail and wholesale) is the next largest sector, with 22.0 per cent of total employment in the service industries. This sector experienced an employment increase of 0.5 per cent in 2006. This slight gain is the result of a decline of 13.4 per cent for the wholesale sector, against an increase of 4.2 per cent for the retail sector.

Trade

	2006	2005	Variance Increase (Decrease)
Educational, Health Care, & Social Assistance Services	26.3%	25.9%	0.4%
Trade	22.0%	22.1%	(0.1%)
Information, Culture & Recreation & Other Personal Services	10.4%	10.4%	0.0%
Accommodation & Food Services	8.4%	9.0%	(0.6%)
Public Administration	8.2%	7.8%	0.4%
Business, Building & Other Support Services	8.1%	6.9%	1.2%
Finance, Insurance, Real Estate & Leasing	6.2%	6.2%	0.0%
Transportation & Warehousing	5.2%	6.0%	(0.8%)
Professional, Scientific & Technical & Business Services	5.2%	5.7%	(0.5%)
	100.0%	100.0%	

Source: Statistics Canada, 2006 Labour Force Historical Review, Cat. No. 71F0004XCB, February 2007.

Business, building and other support services had a 19.1 per cent increase in employment. Employment in public administration showed an increase of 6.6 per cent, while information, culture and recreation grew by 3.2 per cent in 2006.

Employment decreases in 2006 were evident in transportation and warehousing; professional, scientific and technical services; educational services; accommodation and food services; and other services which reported declines of 10.6 per cent, 8.9 per cent, 1.7 per cent, 5.5 per cent, and 0.7 per cent respectively.

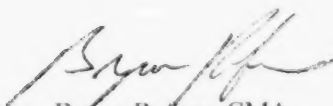
Consolidated Financial Statements

Statement of Responsibility for the Consolidated Financial Statements of the Province of Nova Scotia

Responsibility for the integrity, objectivity, and fair presentation of the consolidated financial statements of the Province of Nova Scotia rests with the government. These financial statements are prepared on behalf of the Minister and Deputy Minister of Finance by the Controller in accordance with the accounting principles recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

The consolidated financial statements include a Consolidated Statement of Financial Position, a Consolidated Statement of Operations and Accumulated Deficits, a Consolidated Statement of Change in Net Direct Debt, and a Consolidated Statement of Cash Flow. They present fairly, in all material respects, the financial position and the results of operations for the year ended. The government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained.

Under the mandate in section 9 of the Auditor General Act, the Auditor General of Nova Scotia provides an independent opinion on the consolidated financial statements prepared by the government.



Byron Rafuse, CMA
Controller



Office of the Auditor General

AUDITOR'S REPORT

*To the Members of the Legislative
Assembly of Nova Scotia*

I have audited the consolidated statement of financial position of the Province of Nova Scotia as at March 31, 2007 and the consolidated statements of operations and accumulated deficits, change in net direct debt and cash flow for the year then ended. These statements are the responsibility of the Government of Nova Scotia, represented by the Minister of Finance. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province of Nova Scotia as at March 31, 2007 and the results of its operations, changes in net direct debt and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

A handwritten signature in dark ink, appearing to read 'JR Lapointe'.

Jacques R. Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
June 30, 2007

Consolidated Financial Statements

Statement 1

Consolidated Statement of Financial Position

As at March 31, 2007

(\$ thousands)

	2007	2006 (as restated)
Financial Assets		
Cash and Short-term Investments (Note 3)	873,090	391,861
Accounts Receivable and Advances	821,509	830,248
Inventories for Resale	3,957	4,043
Loans Receivable (Schedule 3)	1,107,683	1,081,131
Investments (Schedule 3)	43,840	43,468
Investment in Government Business Enterprises (Schedule 6)	15,615	4,932
	<u>2,865,694</u>	<u>2,355,683</u>
Liabilities		
Bank Advances and Short-term Borrowings	790,909	900,106
Accounts Payable and Accrued Liabilities	1,317,078	1,314,779
Deferred Revenue (Note 4)	1,143,636	1,031,818
Accrued Interest	200,559	204,736
Unmatured Debt of Governmental Units (Schedule 4)	10,107,186	9,627,323
Unamortized Foreign Exchange Translation Gains	118,863	91,444
Unamortized Premiums and Discounts	(3)	(4)
Federal Equalization Repayable Loan (Note 6)	108,290	120,322
Pension, Retirement and Other Obligations (Note 7)	1,436,381	1,304,329
	<u>15,222,899</u>	<u>14,594,853</u>
Net Direct Debt	<u>12,357,205</u>	<u>12,239,170</u>
Non-Financial Assets		
Tangible Capital Assets (Schedule 7)	3,688,117	3,387,318
Inventories of Supplies	46,694	47,560
Prepaid Expenses	16,632	16,084
	<u>3,751,443</u>	<u>3,450,962</u>
Accumulated Deficits	<u>(8,605,762)</u>	<u>(8,788,208)</u>
Trust Funds under Administration (Note 8)	8,722,128	8,055,543
Accounting Changes (Note 2)		
Contingencies and Contractual Obligations (Note 12)		
Comparative Figures (Note 13)		

The accompanying notes and schedules are an integral part of these Financial Statements



Consolidated Statement of Operations and Accumulated Deficits

For the fiscal year ending March 31, 2007

(\$ thousands)

	Estimate 2007	Actual 2007	Actual 2006 (as restated)
Revenue (Schedule 1)			
Provincial Sources	4,402,558	4,529,586	4,227,744
Federal Sources	2,691,292	2,598,883	2,477,254
Prior Years' Adjustments – Federal/Provincial Fiscal Arrangements	—	19,657	21,447
Other Revenue	619,425	682,711	676,689
Sinking Fund and Public Debt Retirement Fund Earnings	87,783	121,591	124,395
Total Revenue	7,801,058	7,952,428	7,527,529
Expenses (Schedule 2)			
Agriculture	50,740	54,552	57,833
Community Services	960,825	836,008	815,933
Education	1,454,424	1,510,086	1,420,822
Assistance to Universities	235,987	268,710	231,958
Energy	22,982	19,808	21,606
Environment and Labour	44,699	82,393	81,324
Finance	25,521	39,441	30,252
Health	2,974,241	3,054,867	2,848,468
Health Promotion and Protection	47,350	49,477	34,701
Justice	216,582	214,604	203,781
Natural Resources	71,020	74,654	72,386
Public Service	226,957	222,418	194,496
Service Nova Scotia and Municipal Relations	232,685	195,862	171,442
Tourism Culture and Heritage	51,764	56,275	53,471
Transportation and Public Works	301,426	296,011	277,632
Restructuring Costs	117,216	95,539	77,087
Pension Valuation Adjustment	33,213	83,137	29,587
Loss (Gain) on Disposal of Crown Assets	—	(1,963)	(6,395)
Debt Servicing Costs (Note 10)	994,998	958,744	1,017,779
Total Expenses (Note 9)	8,062,630	8,110,623	7,634,163
Deficit from Governmental Units	(261,572)	(158,195)	(106,634)
Net Income from Government Business Enterprises (Schedule 6)	335,064	340,641	345,419
Provincial Surplus	73,492	182,446	238,785
Accumulated Deficits, Beginning of Year			
As Previously Reported		(8,809,290)	(9,037,408)
Accounting Changes (Note 2)		21,082	10,415
As restated		(8,788,208)	(9,026,993)
Accumulated Deficits, End of Year		(8,605,762)	(8,788,208)

The accompanying notes and schedules are an integral part of these Financial Statements

Consolidated Statement of Change in Net Direct Debt
For the fiscal year ended March 31, 2007
(\$ thousands)

	Estimate 2007	Actual 2007	Actual 2006 (as restated)
Net Direct Debt, Beginning of Year			
As Previously Reported	(12,239,170)	(12,239,170)	(12,305,174)
Accounting Changes (Note 2)	—	—	(56)
As restated	(12,239,170)	(12,239,170)	(12,305,230)
Changes in the Year			
Provincial Surplus	73,492	182,446	238,785
Acquisition of Tangible Capital Assets	(358,466)	(548,239)	(399,896)
Amortization of Tangible Capital Assets	148,496	241,874	216,040
Disposals and Adjustments to Tangible Capital Assets	—	5,566	13,839
(Increase) Decrease in Inventories of Supplies	—	866	(1,506)
Increase in Prepaid Expenses	—	(548)	(1,202)
Total Changes in the Year	(136,478)	(118,035)	66,060
Net Direct Debt – End of Year	(12,375,648)	(12,357,205)	(12,239,170)

Except for the Provincial Surplus figure, the Estimates for items shown as *Changes in the Year* reflect the activity of the Consolidated Fund only.



Consolidated Statement of Cash Flow
For the fiscal year ended March 31, 2007
(\$ thousands)

	2007	2006 (as restated)
Cash Inflow (Outflow) from the following activities:		
Operating:		
Provincial Surplus	182,446	238,785
Sinking Fund and Public Debt Retirement Fund Earnings	(121,591)	(124,395)
Foreign Exchange Amortization	2,130	5,963
Amortization of Tangible Capital Assets	241,874	216,040
Net Income from Government Business Enterprises	(340,641)	(345,419)
Profit Distributions from Government Business Enterprises	329,958	336,552
Net Change in Other Items (Note 11)	141,938	482,942
	<u>436,114</u>	<u>810,468</u>
Investing:		
Repayment of Loans	182,908	166,843
Advances and Investing	(209,832)	(224,454)
	<u>(26,924)</u>	<u>(57,611)</u>
Capital:		
Acquisition of Tangible Capital Assets	(548,239)	(399,896)
Proceeds from Disposal of Tangible Capital Assets	4,189	7,209
Loss on Disposal of Tangible Capital Assets	1,377	6,630
	<u>(542,673)</u>	<u>(386,057)</u>
Financing:		
Debentures Issued	1,474,021	788,471
Repayment of Federal Equalization Repayable Loan	(12,032)	—
Foreign Currency Swaps and Adjustments	(8,204)	7,632
Sinking Fund Installments	(63,246)	(54,840)
Proceeds from Sinking Funds for Debt Repayment	360,000	657,700
Repayment of Debentures and Other Long-term Obligations	(1,135,827)	(1,779,114)
	<u>614,712</u>	<u>(380,151)</u>
Cash (Outflows) Inflows	<u>481,229</u>	<u>(13,351)</u>
Cash Position, Beginning of Year	<u>391,861</u>	<u>405,212</u>
Cash Position, End of Year	<u>873,090</u>	<u>391,861</u>
Cash Position Represented by:		
Cash and Short-Term Investments	<u>873,090</u>	<u>391,861</u>

Schedule 1

Revenue**For the fiscal year ended March 31, 2007****(\$ thousands)**

	2007	2006 (as restated)
Provincial Sources		
Income Taxes	2,071,580	1,929,957
Sales Taxes	1,494,873	1,483,575
Petroleum Royalties	269,100	123,850
Other Provincial Revenue	694,033	690,362
	<u>4,529,586</u>	<u>4,227,744</u>
Federal Sources		
Equalization Payments	1,385,539	1,343,527
Canada Health and Social Transfers	874,781	835,979
Other Federal Payments	338,563	297,748
	<u>2,598,883</u>	<u>2,477,254</u>
Prior Years Adjustments – Federal/Provincial Fiscal Arrangements		
Provincial Sources	12,935	16,420
Federal Sources	6,722	5,027
	<u>19,657</u>	<u>21,447</u>
Other Revenue	682,711	676,689
Sinking Fund and Public Debt Retirement Fund Earnings	121,591	124,395
Total Revenue	<u>7,952,428</u>	<u>7,527,529</u>

Expenses

For the fiscal year ended March 31, 2007
(\$ thousands)

	2007	2006 (as restated)
Agriculture		
Department of Agriculture	54,552	57,513
CIDA Ghana / Africa Project	—	320
	<u>54,552</u>	<u>57,833</u>
Community Services		
Department of Community Services	738,856	721,304
Nova Scotia Housing Development Corporation	97,152	94,629
	<u>836,008</u>	<u>815,933</u>
Education		
Department of Education	300,706	275,761
Annapolis Valley Regional School Board	114,739	112,696
Cape Breton Victoria Regional School Board	140,113	125,270
Chignecto-Central Regional School Board	174,312	169,012
Conseil Scolaire Acadien Provincial	40,694	37,399
Halifax Regional School Board	378,182	358,178
Nova Scotia Community College	157,157	144,283
Scotia Learning Centre Technology Refresh	—	2,325
South Shore Regional School Board	65,642	61,984
Strait Regional School Board	78,756	73,435
Tri County Regional School Board	59,785	60,479
	<u>1,510,086</u>	<u>1,420,822</u>
Assistance to Universities	<u>268,710</u>	<u>231,958</u>
Energy		
Department of Energy	17,004	21,186
Coal Research Agreement Fund	—	275
Nova Scotia Market Development Initiative Fund	2,804	145
	<u>19,808</u>	<u>21,606</u>
Environment and Labour		
Department of Environment and Labour	40,865	40,965
Resource Recovery Fund Board Incorporated	41,528	40,359
	<u>82,393</u>	<u>81,324</u>

Expenses (continued)**For the fiscal year ended March 31, 2007****(\$ thousands)**

	2007	2006 (as restated)
Finance		
Department of Finance	19,591	30,771
Nova Scotia Government Fund Limited	85	99
Nova Scotia Hurricane Juan Recovery Fund	—	53
Nova Scotia Pension Agency	19,653	—
Sydney Steel Corporation	229	111
3052155 Nova Scotia Limited	(117)	(782)
	<u>39,441</u>	<u>30,252</u>
Health		
Department of Health	1,274,487	1,173,877
Annapolis Valley District Health Authority	100,410	91,730
Cape Breton District Health Authority	211,274	198,819
Capital District Health Authority	647,609	625,767
Colchester East Hants Health Authority	60,327	54,664
Cumberland Health Authority	49,332	48,423
Guysborough Antigonish-Strait Health Authority	60,862	57,597
Insured Prescription Drug Plan	166,959	159,542
Izaak Walton Killam Health Centre	200,258	167,670
Nova Scotia Gaming Foundation	354	744
Nova Scotia Health Research Foundation	4,829	5,065
Pictou County Health Authority	60,624	60,725
Provincial Drug Distribution Program	75,031	71,814
South Shore District Health Authority	60,650	56,672
South West Nova District Health Authority	81,861	75,359
	<u>3,054,867</u>	<u>2,848,468</u>
Health Promotion and Protection		
Department of Health Promotion and Protection	<u>49,477</u>	<u>34,701</u>
Justice		
Department of Justice	195,653	185,472
Nova Scotia Legal Aid Commission	18,951	18,309
	<u>214,604</u>	<u>203,781</u>
Natural Resources		
Department of Natural Resources	67,675	66,659
Acadia Coal Company Limited Fund	2	2
Crown Land Silviculture Fund	2,080	2,542
Nova Scotia E 911 Cost Recovery Fund	3,961	2,981
Habitat Conservation Fund	147	202
Sustainable Forestry Fund	549	—
Off Highway Vehicle Infrastructure Fund	240	—
	<u>74,654</u>	<u>72,386</u>

Expenses (continued)
For the fiscal year ended March 31, 2007
(\$ thousands)

	2007	2006 (as restated)
Public Service		
Public Service	160,028	147,056
Nova Scotia Business Incorporated	22,690	22,257
NS Film Development Corporation	3,884	3,713
NS Innovation Corporation	5,874	5,740
Trade Centre Limited	15,940	13,340
Waterfront Development Corporation Ltd.	3,198	2,390
Nova Scotia Nominee Program	8,932	—
Interest only for Nova Scotia Nominee Program	1,872	—
	<u>222,418</u>	<u>194,496</u>
Service Nova Scotia and Municipal Relations		
Department of Service Nova Scotia and Municipal Relations	195,162	170,825
Nova Scotia Coordinate Referencing System Trust Fund	—	—
Nova Scotia Municipal Finance Corporation	700	617
	<u>195,862</u>	<u>171,442</u>
Tourism, Culture and Heritage		
Department of Tourism, Culture and Heritage	52,647	50,146
Art Gallery of Nova Scotia	3,628	3,325
	<u>56,275</u>	<u>53,471</u>
Transportation and Public Works		
Department of Transportation and Public Works	296,011	277,632
Sydney Tar Ponds Agency	—	—
	<u>296,011</u>	<u>277,632</u>
Restructuring Costs	<u>95,539</u>	<u>77,087</u>
Pension Valuation Adjustment	<u>83,137</u>	<u>29,587</u>
Loss (Gain) on Disposal of Crown Assets	<u>(1,963)</u>	<u>(6,395)</u>

Schedule 2

Expenses (continued)**For the fiscal year ended March 31, 2007****(\$ thousands)**

	2007	2006 (as restated)
Debt Servicing Costs		
Consolidated Fund	913,359	971,339
Annapolis Valley District Health Authority	322	309
Annapolis Valley Regional School Board	163	253
Cape Breton District Health Authority	1,138	1,059
Cape Breton Victoria Regional School Board	325	383
Capital District Health Authority	5,366	5,326
Chignecto-Central Regional School Board	1,043	1,225
Colchester East Hants Health Authority	205	207
Conseil Scolaire Acadien Provincial	43	59
Cumberland Health Authority	140	138
Guysborough Antigonish-Strait Health Authority	282	262
Halifax Regional School Board	1,538	1,886
Izaak Walton Killam Health Centre	685	1,402
Nova Scotia Government Fund Limited	395	321
Nova Scotia Housing Development Corporation	31,160	30,047
Nova Scotia Legal Aid	133	134
Nova Scotia Municipal Finance Corporation	963	1,834
Pictou County Health Authority	229	242
Resource Recovery Fund Board	—	3
South Shore District Health Authority	255	242
South Shore Regional School Board	70	128
South West Nova District Health Authority	360	348
Strait Regional School Board	269	326
Tri-County Regional School Board	64	95
Waterfront Development Corporation Limited	237	211
	<u>958,744</u>	<u>1,017,779</u>
Total Expenses	<u>8,110,623</u>	<u>7,634,163</u>



Loans and Investments

As at March 31, 2007

(\$ thousands)

	Loans and Investments	Provisions	Net 2007	Net 2006
Loans of the Consolidated Fund:				
Agriculture and Rural Credit Act	190,404	8,486	181,918	176,407
Fisheries Development Act	83,897	429	83,468	80,001
Housing Development Corporation Act	65,230	24,161	41,069	35,497
Industrial Development Act	89,251	56,443	32,808	34,898
Venture Corporations Act	809	809	—	—
Municipal Loan and Building Fund Act	375	—	375	515
Halifax-Dartmouth Bridge Commission	12,000	—	12,000	17,000
Miscellaneous	709	—	709	709
Nova Scotia Market Development Initiative Fund	5,600	—	5,600	7,600
	<u>448,275</u>	<u>90,328</u>	<u>357,947</u>	<u>352,627</u>
Loans of Governmental Units:				
Nova Scotia Business Incorporated	138,812	39,760	99,052	100,324
Nova Scotia Government Fund	8,062	—	8,062	7,175
Nova Scotia Innovation Corporation	264	—	264	86
Nova Scotia Municipal Finance Corporation	642,234	—	642,234	620,874
Other Government Service Organizations	124	—	124	45
	<u>789,496</u>	<u>39,760</u>	<u>749,736</u>	<u>728,504</u>
Total Loans	<u>1,237,771</u>	<u>130,088</u>	<u>1,107,683</u>	<u>1,081,131</u>
Investments of the Consolidated Fund:				
Housing Development Corporation Act	2,114	105	2,009	1,959
Industrial Development Act	7,493	—	7,493	7,614
	<u>9,607</u>	<u>105</u>	<u>9,502</u>	<u>9,573</u>
Investments of Governmental Units:				
Art Gallery of NS	1,803	—	1,803	1,815
Nova Scotia Business Incorporated	26,106	12,888	13,218	12,333
Nova Scotia Innovation Corporation	17,266	—	17,266	17,747
Resource Recovery Fund Board	2,051	—	2,051	2,000
	<u>47,226</u>	<u>12,888</u>	<u>34,338</u>	<u>33,895</u>
Total Investments	<u>56,833</u>	<u>12,993</u>	<u>43,840</u>	<u>43,468</u>
Total Loans and Investments	<u>1,294,604</u>	<u>143,081</u>	<u>1,151,523</u>	<u>1,124,599</u>

Notes:

The Provisions listed above include amounts for possible guarantee payouts related to the Industrial Development Act \$5,800 (2006 - \$400), the Housing Development Corporation Act \$14,929 (2006 - \$14,385), and Nova Scotia Business Incorporated \$760 (2006 - \$650).

Also included in Provisions for the Housing Development Corporation Act is \$3,200 (2006 - \$3,200) for interest fluctuations.

Schedule 4

Unmatured Debt
As at March 31, 2007
(\$ thousands)

	Gross Debt	Sinking Funds and Defeasance Assets	Net Debt 2007	Net Debt 2006
Governmental Units				
Consolidated Fund	11,713,517	1,906,772	9,806,745	9,309,558
Nova Scotia Government Fund Limited	10,050	—	10,050	10,250
Nova Scotia Housing Development Corporation	273,128	—	273,128	283,638
Nova Scotia Municipal Finance Corporation	12,008	—	12,008	20,725
Nova Scotia Power Finance Corporation	1,045,870	1,045,870	—	—
Waterfront Development Corporation Limited	2,885	—	2,885	2,800
Other	2,370	—	2,370	352
Unmatured Debt of Governmental Units	13,059,828	2,952,642	10,107,186	9,627,323
Government Business Enterprises				
Halifax-Dartmouth Bridge Commission	106,379	44,619	61,760	73,478
Highway 104 Western Alignment Corporation	78,600	—	78,600	84,592
Nova Scotia Gaming Corporation	35,132	—	35,132	58,383
Nova Scotia Liquor Corporation	5,313	—	5,313	6,050
Unmatured Debt of Government Business Enterprises	225,424	44,619	180,805	222,503
Total Unmatured Debt	13,285,252	2,997,261	10,287,991	9,849,826

Notes:

All debt is presented in Canadian dollar equivalents and after giving effect to currency swap contracts itemized in Note 5.

The current and long-term portions of unmatured debt of Governmental Units are shown on the Consolidated Statement of Financial Position with reference to this schedule. Debt of Government Business Enterprises is reflected in the Deficiency in Government Business Enterprises and in further detail in Schedule 6.

All foreign debt is hedged to Canadian dollars with the exception of \$1,054.0 million US\$ denominated debt. A one cent change in the CDN/US\$ foreign exchange rate as of March 31, 2007 would result in a change in long-term debt, and a foreign exchange gain or loss, of \$10.5 million. This hypothetical foreign exchange gain or loss would be amortized starting in 2008. The change in debt service costs for the 2008 fiscal year would be approximately \$0.9 million due to this foreign exchange gain or loss amortization.

As of March 31, 2007, the Consolidated Fund held Sinking Funds and Public Debt Retirement Funds of \$1,906.8 million. These funds were comprised of \$1,394.0 million in Canadian assets and \$512.8 million in US assets (US \$444.8 million converted to CDN\$ based on the underlying securities' effective foreign exchange rates). Total market value of both funds is \$2,052.7 million at year-end. During the year, contributions were \$147.2 million, total earnings were \$121.6 million and redemptions were \$449.3 million.

Unmatured Debt (continued)**As at March 31, 2007****(\$ thousands)****Notes:**

Sinking fund assets are recorded at cost, which includes premiums and discounts associated with the purchase of these investments. These premiums and discounts are amortized on a straight-line basis over the term of the related investment. The unamortized portion of the premiums and discounts is included as part of the value of the sinking funds. As at March 31, 2007, the unamortized net premium was \$67.1 million.

Assets consist primarily of debentures of the provinces and Government of Canada with fixed interest rates ranging from 4.6% to 11% for Canadian funds and 3.25% to 9.50% for US funds. For designated sinking funds, payments normally commence on the first anniversary date of the issue of the debenture and are designed to retire the debt over the term of the issue. At year-end, the province held \$1,065.3 million carrying value worth of its own debentures (par value of \$1,004.7 million) in Sinking Funds and Public Debt Retirement Funds as active investments. These were comprised of \$373.7 million in Canadian assets and \$691.6 million in US assets.

As per the Nova Scotia Power Corporation Privatization Agreement, Nova Scotia Power Finance Corporation provides for defeasance of its debt. The portfolio of defeasance assets consists of Nova Scotia Power Corporation, other Provincial Governments and utilities, Federal US bonds, coupons or residuals. This debt is shown net of defeasance assets on the Statement of Financial Position.

Projected Payments**(\$ thousands)**

	Governmental Units						Government Business Enterprises	Total
	By Major Currency (CDN Equivalent)							
	Net Principal Repayments			Sinking Fund Requirements			Total Payments	
	CDN	US	Total	CDN	US	Total		
2008	636,654	—	636,654	36,400	21,512	57,912	694,566	82,725
2009	310,442	—	310,442	36,400	21,512	57,912	368,354	14,039
2010	696,358	—	696,358	36,400	21,512	57,912	754,270	4,128
2011	686,997	—	686,997	36,400	21,512	57,912	744,909	9,746
2012	1,617,178	—	1,617,178	36,400	21,512	57,912	1,675,090	3,174
2013 & thereafter	5,761,069	502,107	6,263,176	342,796	92,761	435,557	6,698,733	66,993
	9,708,698	502,107	10,210,805	524,796	200,321	725,117	10,935,922	180,805
								11,116,727

Net principal repayments are comprised of the principal amount due less available designated sinking funds to retire the debenture.

In addition, the province has approximately \$828.9 million in unrestricted sinking funds that can be used towards the retirement of any unmaturing debt. The use of these funds is evaluated each year based on a detailed analysis of cash requirements.

Schedule 5

Gross Long-Term Debt

As at March 31, 2007

(\$ thousands)

	Foreign Exchange Rate	CDN \$ Amount	Maturity Dates	Interest Rates
Governmental Units:				
<u>Debentures</u>				
Consolidated Fund				
Consolidated Fund (CDN\$)		10,101,844	2007 to 2037	4.45% to 15.998%
Consolidated Fund (US \$1,054,040)	1.1529	1,215,203	2012 to 2022	5.125% to 9.5%
Consolidated Fund (UK)	2.2697	—	2011 to 2019	11.75% to 16.75%
Consolidated Fund (Euro)	1.5418	—	2007 to 2010	4.475%
Nova Scotia Municipal Finance Corporation		12,008	2007 to 2017	1.0% to 5.5%
Nova Scotia Power Finance Corporation				
Nova Scotia Power Finance Corporation (CDN\$)		700,000	2012 to 2031	10.25% to 11.85%
Nova Scotia Power Finance Corporation (US\$ 300,000)	1.1529	345,870	2021	9.4%
Total - Debentures		<u>12,374,925</u>		
<u>Loans</u>				
Consolidated Fund - Other Debt		426	2007 to 2012	4.03% to 8.375%
Nova Scotia Government Fund Limited		10,050	2007	1%
Nova Scotia Housing Development Corporation		273,128	2007 to 2034	4.0% to 21.5%
Waterfront Development Corporation		2,885	Demand Loan	bank prime
Total - Loans		<u>286,489</u>		
<u>Capital Leases</u>				
Consolidated Fund		396,044	2007 to 2027	4.35% to 11%
Other		2,370	2010 to 2011	5.0% to 8.0%
Total - Capital Leases		<u>398,414</u>		
Total - Long-term Debt of Governmental Units		<u>13,059,828</u>		



Gross Long-Term Debt (continued)
As at March 31, 2007
(\$ thousands)

	CDN \$ Amount	Maturity Dates	Interest Rates
Government Business Enterprises:			
	Debentures		
Halifax-Dartmouth Bridge Commission	94,379	2007	5.95%
Highway 104 Western Alignment Corporation	78,600	2011 to 2026	10.13% to 10.76%
	Loans		
Halifax-Dartmouth Bridge Commission	12,000	2007	floating (line of credit)
Nova Scotia Gaming Corporation	11,082	2010	non interest bearing
	Capital Leases		
Nova Scotia Gaming Corporation	24,050	2009 to 2012	12%
Nova Scotia Liquor Corporation	5,313	2012	13.8%
Total – Long-term Debt of Government Business Enterprises	225,424		
Total Gross Long-term Debt	13,285,252		

Call, Redemption and Other Features:

Consolidated Fund

Canadian debentures include the following redeemable issues:

- \$1,079.4 million in CPP debentures, which are redeemable in whole or in part before maturity, on six months notice, at the option of the Minister of Finance of Canada;

- \$35 million in medium-term promissory notes, redeemable in whole but not in part, on the initial redemption date and on each redemption date thereafter, on 15 days notice, at the option of the province.

The interest rates shown for the Canadian and US debentures reflect the fixed rates only. There are debentures that have floating and step-up rates. Floating interest rates are adjusted on either a monthly or quarterly basis. Step-up rates are adjusted per the individual promissory note step-up schedules.

Housing Development Corporation

Mortgages and notes payable are secured by investments in social housing.

Highway 104 Western Alignment Corporation

In relation to its senior toll bonds, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the facility, and a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.

In relation to its junior toll bonds, the Corporation has assigned a second charge security interest in all security pledged to the senior toll revenue bondholders.

Halifax-Dartmouth Bridge Commission

The Commission's toll bonds are secured by an assignment of the revenues of the Commission; subject to the prior payment of operating and maintenance expenses, and the maintenance of certain reserve funds by the Commission.

Schedules to the Consolidated Financial Statements

Schedule 6

Government Business Enterprises

As at March 31, 2007

(\$ thousands)

	2007					2006
	Halifax - Dartmouth Bridge Commission	Highway 104 Western Alignment Corporation	Nova Scotia Gaming Corporation	Nova Scotia Liquor Corporation	Total	Total
Cash	7,477	651	9,172	16,156	33,456	24,871
Accounts Receivable	301	64	—	2,219	2,584	2,913
Inventory	—	14	1,729	36,761	38,504	31,747
Tangible Capital Assets	64,559	100,667	94,725	35,513	295,464	300,948
Other Assets	48,742	33,241	814	3,384	86,181	78,515
Total Assets	121,079	134,637	106,440	94,033	456,189	438,994
Accounts Payable	1,831	1,538	4,545	71,283	79,197	44,118
Long-term Debt	106,379	78,600	35,132	5,313	225,424	260,404
Other Liabilities	5,964	45,789	66,763	17,437	135,953	129,540
Total - Liabilities	114,174	125,927	106,440	94,033	440,574	434,062
Equity	6,905	8,710	—	—	15,615	4,932
Total Liabilities and Equity	121,079	134,637	106,440	94,033	456,189	438,994
Revenue	25,877	18,305	462,330	511,038	1,017,550	1,022,470
Expenses	11,199	6,398	318,040	320,914	656,551	655,711
Debt Servicing	7,026	8,876	2,573	1,883	20,358	21,340
Total - Expenses	18,225	15,274	320,613	322,797	676,909	677,051
Net Income	7,652	3,031	141,717	188,241	340,641	345,419

Notes:

The year-end for Halifax-Dartmouth Bridge Commission is December 31. The year-end of the other three corporations is March 31.

Government Business Enterprises (continued)

As at March 31, 2007

Halifax-Dartmouth Bridge Commission

The Commission is incorporated by Special Statute of the Province of Nova Scotia. The purpose of the Commission is to construct, maintain and operate transportation projects and their necessary approaches across the Halifax Harbour, between the communities of Halifax and Dartmouth, and across the North West Arm. Bridge tolls are regulated by the Nova Scotia Utility and Review Board, a provincially controlled public sector entity. The Commission's fiscal year end is December 31. The commission paid \$5.0 million on the outstanding line of credit to the province's Consolidated Fund leaving a balance of \$12.0 million as of December 31, 2006 (2005 - \$17.0 million). The Commission records depreciation on bridge structures, buildings, some bridge components, and electronic transponders using the straight-line method and uses the declining balance method for all other assets. Included in other assets at December 31, 2006 is a reserve fund in the amount of \$47.3 million (2005 - \$40.0 million), \$44.6 million (2005 - \$37.9 million) of which is restricted for repayment of principal, interest and fees on Toll Revenue Bonds as established under the terms of the trust indenture.

Highway 104 Western Alignment Corporation

The Corporation has been established to finance, design, construct, operate and maintain a 45 km stretch of highway between Masstown and Thompson Station in the counties of Colchester and Cumberland, Nova Scotia. The Province of Nova Scotia retains ownership of the highway. The Corporation is granted the right to operate the highway and collect tolls for a 30-year period, pursuant to an agreement dated April 1, 1996, after which time the right will revert to the province. In addition, the Corporation has entered into an operating agreement with Atlantic Highways Management Corporation whereby compensation is based on the annual operating budget plus a variable fee. The Corporation's fiscal year end is March 31. The Corporation records depreciation using the sinking fund method. Restricted assets, consisting of short-term investments in the amount of \$32.4 million (2006 - \$32.8 million), are included in other assets. These reserve accounts were established in accordance with trust indenture agreements between the Corporation and bondholders.

The Province of Nova Scotia contributed \$55.0 million toward the construction of the highway, one-half of which was recovered from the Federal Government under the Canada-Nova Scotia Strategic Highway Improvement Program. There were no contributions in the current or previous year.

Nova Scotia Gaming Corporation

The Corporation was incorporated on February 15, 1995 by Chapter 4 of the Acts of 1994-95, the *Gaming Control Act*. The purpose of the Corporation is to develop, undertake, conduct and manage casinos and other lottery business on behalf of the province. The Corporation's fiscal year end is March 31.

The revenues of the Corporation are derived from two casinos, located in Halifax and Sydney, and ticket and video lottery sales. The net balance owing to the Province at March 31, 2007 was \$53.9 million (2006 - \$42.9 million). The Corporation is required to reimburse the operator of the casinos for approved development costs of the Halifax and Sydney casinos. The net present value of the remaining obligations for the casinos is approximately \$24.1 million (2006 - \$38.8 million).

Unclaimed prizes are retained by the Corporation in a prize fund for one year from the announced beginning date of the draw. At March 31, 2007, this amounted to \$1.8 million (2006 - \$2.6 million). Restricted cash in the amount of \$1.8 million (2006 - \$2.6 million) is included in cash.

Government Business Enterprises (continued)**As at March 31, 2007**

Video Lottery Terminal (VLT) retailers in Nova Scotia have agreed, under the terms of their agreements with Atlantic Lottery Corporation Inc., to contribute 1% of their VLT commission to the Nova Scotia Gaming Foundation. The Corporation has agreed to contribute an amount equal to all contributions made by the VLT retailers.

In July 2006, as part of its Gaming Strategy, Government approved a contribution of \$3.0 million to Nova Scotia Health Promotion and Protection in 2006-2007 (2005-2006 - \$3.0 million) to fund problem gambling treatment. The Corporation will provide up to \$1.0 million (2006 - \$1.0 million) in funds in fiscal 2007 for the harness racing industry in Nova Scotia.

Nova Scotia Liquor Corporation

The Corporation derives its mandate from the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989. The Corporation operates retail sales locations across the province. Its fiscal year end is March 31. The net balance owing to the province at March 31, 2007 was \$38.2 million (2006 - \$8.3 million).

Tangible Capital Assets

As at March 31, 2007

(\$ thousands)

	2007						2006
	Land	Buildings and Land Improvements	Machinery Computers and Equipment	Vehicles and Ferries	Roads, Bridges and Highways	Total	Total (as restated)
Cost							
Opening Costs	545,986	3,249,851	886,939	89,558	781,151	5,553,485	5,202,717
Additions	42,447	165,355	109,587	16,540	214,310	548,239	399,896
Disposals	(313)	(2,303)	(13,518)	(2,354)	(558)	(19,046)	(49,128)
Closing Costs	588,120	3,412,903	983,008	103,744	994,903	6,082,678	5,553,485
Accumulated Amortization							
Opening							
Accumulated	—	(1,154,952)	(631,447)	(57,008)	(322,760)	(2,166,167)	(1,985,416)
Disposals	—	—	11,399	2,025	56	13,480	35,289
Amortization Expense	—	(102,709)	(69,257)	(9,493)	(60,415)	(241,874)	(216,040)
Closing Accumulated Amortization	—	(1,257,661)	(689,305)	(64,476)	(383,119)	(2,394,561)	(2,166,167)
Net Book Value	588,120	2,155,242	293,703	39,268	611,784	3,688,117	3,387,318
Opening Balance	545,986	2,094,899	255,492	32,550	458,391	3,387,318	3,217,301
Closing Balance	588,120	2,155,242	293,703	39,268	611,784	3,688,117	3,387,318
Increase (Decrease) in Net Book Value	42,134	60,343	38,211	6,718	153,393	300,799	170,017

Notes to Schedule 7
(\$ thousands)

Amortization is calculated on a declining balance basis for assets of the Consolidated Fund. The amortization percentages of the more common tangible capital assets are: buildings and land improvements(5%); machinery, computers and equipment (15-50%); ferries (15%); vehicles (20-35%); and roads, bridges and highways (5-15%). Capital leases are amortized on a straight-line basis over the length of each lease (3-25 years).

Amortization is generally calculated on a straight-line basis for assets of entities consolidated with the Consolidated Fund. The estimated useful lives of the more common tangible capital assets are: buildings (including leasehold improvements) and land improvements (2-50 years); machinery, computers and equipment (3-50 years); and vehicles (3-7 years). Capital leases are amortized on a straight-line basis, generally over a 3 to 20 year term.

Social Housing assets are included in Buildings and Land Improvements and relate to the Housing Development Corporation. These assets are amortized using the straight-line method. The net book value of these assets is \$325,030 (2006 - \$336,101).

Included in the closing costs of the various classes as of March 31, 2007, are costs for assets under construction, which have not yet been amortized. These costs are buildings - \$86,935; machinery, computers and equipment - \$22,400; vehicles - \$4,960; capital leases - \$1,416; and roads, bridges and highways - \$25,066.

Capital leases are included in the various categories as follows: buildings - cost \$470,515, accumulated amortization \$168,130; machinery, computers and equipment - cost \$39,794, accumulated amortization \$29,616; and vehicles - cost \$17,004, accumulated amortization \$7,182.



Schedule 8

Direct Guarantees
As at March 31, 2007
(\$ thousands)

	Authorized 2007	Utilized 2007	Utilized 2006
Bank Loans:			
Nova Scotia Business Incorporated	6,654	4,004	2,754
Industrial Development Act	122,170	83,706	73,524
Nova Scotia Fisheries and Aquaculture Loan Board	100	100	100
Department of Education – Student Loan Program	157,928	157,928	154,874
Total – Bank Loan Guarantees	286,852	245,738	231,252
Promissory Notes:			
3052155 NS Limited to Canada-Nova Scotia			
Offshore Petroleum Board	2,500	2,500	17,500
Total – Promissory Note Guarantees	2,500	2,500	17,500
Mortgages:			
Housing Development Corporation Act	11,725	11,725	12,468
Housing Development Corporation Act -			
CMHC Indemnities	137,217	137,217	144,094
Provincial Finance Act	240	240	240
Total – Mortgage Guarantees	149,182	149,182	156,802
Other Guarantees:			
Aliant Telecom MASH Sector	424	424	1,150
Equity Tax Credit Act – Community Economic			
Development Investment Funds	1,931	1,931	2,402
Nova Scotia Government Fund	9,840	9,840	9,840
Total – Other Guarantees	12,195	12,195	13,392
Total – Direct Guarantees	450,729	409,615	418,946
Less Provision for Guarantee Payout:			
Industrial Development Act		(5,800)	(400)
Nova Scotia Business Incorporated		(760)	(650)
Department of Education – Student Loan Program		(32,839)	(22,574)
Housing Development Corporation Act		(14,929)	(14,385)
3052155 Nova Scotia Limited		(500)	(833)
		(54,828)	(38,842)
Less Provision for Debt Reduction Program:			
Department of Education – Student Loan Program		(15,085)	(13,896)
Net Direct Guarantees not provided for			
in these statements		339,702	366,208

Government Reporting Entity**As at March 31, 2007**

Listed below are the governmental units, government business enterprises and government partnership arrangements that comprise the government reporting entity.

Governmental Units*(Consolidation Method)*

Acadia Coal Company Limited Fund	Nova Scotia Crop and Livestock Insurance Commission
AgraPoint International Inc.	Nova Scotia E911 Cost Recovery Fund
AgriTECH Park Inc.	Nova Scotia Environmental Trust
Annapolis Valley District Health Authority	Nova Scotia Farm Loan Board
Annapolis Valley Regional School Board	Nova Scotia Film Development Corporation
Art Gallery of Nova Scotia	Nova Scotia Fisheries & Aquaculture Loan Board
Bioscience Enterprise Centre Incorporated	Nova Scotia Gaming Foundation
Cape Breton District Health Authority	Nova Scotia Government Acadian Bursary Program Fund
Cape Breton Victoria Regional School Board	Nova Scotia Government Fund Limited
Capital District Health Authority	Nova Scotia Harness Racing Incorporated
Check Inns Limited (inactive)	Nova Scotia Health Research Foundation
Chignecto-Central Regional School Board	Nova Scotia Housing Development Corporation
Coal Research Agreement Fund	Annapolis Valley Housing Authority
Colchester East Hants Health Authority	Cape Breton Island Housing Authority
Conserve Nova Scotia	Cobequid Housing Authority
Conseil Scolaire Acadien Provincial	Eastern Mainland Housing Authority
CorFor Capital Repairs & Replacements Fund	Metropolitan Regional Housing Authority
Consolidated Fund (1)	South Shore Housing Authority
Crown Land Mine Remediation Fund	Tri-County Housing Authority
Crown Land Silviculture Fund	Nova Scotia Innovation Corporation
Cumberland Health Authority	1402998 Nova Scotia Limited
Gaming Addiction Treatment Trust Fund	3039255 Nova Scotia Limited
Guysborough Antigonish-Strait Health Authority	3087532 Nova Scotia Limited
Habitat Conservation Fund	Nova Scotia Lands Inc.
Halifax Regional School Board	Nova Scotia Legal Aid Commission
Harbourside Commercial Park Inc.	Nova Scotia Market Development Initiative Fund
Industrial Expansion Fund	Nova Scotia Municipal Finance Corporation
Insured Prescription Drug Plan Trust Fund	Nova Scotia Nominee Program Fund
Izaak Walton Killam Health Centre	Nova Scotia Pension Agency
Law Reform Commission	Nova Scotia Power Finance Corporation
Mainstream 1992 Fund	Nova Scotia Primary Forest Products Marketing Board
Muggah Creek Remediation Fund	Nova Scotia School Boards Association (2)
Nova Scotia Arts Council (inactive)	Nova Scotia School Insurance Exchange (3)
Nova Scotia Blueberry Institute Fund	Nova Scotia School Insurance Program Association (3)
Nova Scotia Business Incorporated	Nova Scotia Sportfish Habitat Fund
Nova Scotia Community College	Nova Scotia Utility and Review Board
Nova Scotia Community College Foundation	Off-Highway Vehicle Infrastructure Fund
Nova Scotia Coordinate Referencing System Trust Fund	P3 Schools Capital & Technology Refresh Fund (4)

- (1) – Includes all departments and public service units of the Nova Scotia Provincial Government
- (2) – Entity is a partnership controlled by the eight school boards.
- (3) – Entity is a partnership controlled by the eight school boards and the Community College
- (4) – This includes all refresh funds related to P3 schools.

**Government Reporting Entity (continued)**
As at March 31, 2007**Governmental Units (continued)**
(Consolidation Method)

Pengrowth Nova Scotia Energy Scholarship
Pictou County Health Authority
Provincial Drug Distribution Program
Public Archives of Nova Scotia
Public Debt Management Fund
Resource Recovery Fund Board Incorporated
Rockingham Terminal Incorporated (inactive)
Scotia Benefit Fund
Scotia Learning Technology Refresh Fund
Sherbrooke Restoration Commission
South Shore District Health Authority
South Shore Regional School Board
South West Nova District Health Authority
Species-at-risk Conservation Fund
Strait Regional School Board
Sustainable Forestry Fund
Sydney Environmental Resources Limited
Sydney Steel Corporation
Sydney Tar Ponds Agency
Sydney Utilities Limited
Sysco Decommissioning Fund
Trade Centre Limited
Maritime Fall Fair Association
Tri-County Regional School Board
Upper Clements Family Theme Park Limited
Waterfront Development Corporation Limited
3052155 Nova Scotia Limited
3104102 Nova Scotia Limited

Government Business Enterprises
(Modified Equity Method)

Halifax-Dartmouth Bridge Commission
Highway 104 Western Alignment Corporation
Nova Scotia Gaming Corporation
Atlantic Lottery Corporation (25% ownership)
Interprovincial Lottery Corporation (10% ownership)
Nova Scotia Liquor Corporation

Government Partnership Arrangements
(Proportionate Consolidation Method)

Atlantic Provinces Special Education Authority
(approximately 55% share)
Canada-Nova Scotia Offshore Petroleum Board (50% share)
Canadian Sports Centre Atlantic (approximately 8% share)
Council of Atlantic Premiers (approximately 45% share)

Province of Nova Scotia
Notes to the Consolidated Financial Statements
As at March 31, 2007

1. Financial Reporting and Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector, that for purposes of the province's financial statements are represented by accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

These consolidated financial statements have been prepared using the following significant accounting policies:

a) The Government Reporting Entity

The Government Reporting Entity is comprised of the Consolidated Fund, other Governmental Units, Government Business Enterprises and Government Partnership Arrangements. Governmental Units and Government Business Enterprises represent the entities that are controlled by the government. Control is defined as the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities. Control exists regardless of whether the government chooses not to exercise its power to govern so long as it has the ability to govern. Control must exist at the financial statement date, without the need to amend legislation or agreements. Government Partnership Arrangements represent entities for which decision making and significant risks and benefits are shared with other parties outside of the Government Reporting Entity.

Trusts administered by the province are excluded from the reporting entity and are disclosed separately on the Statement of Financial Position for information purposes only.

b) Principles of Consolidation

A Governmental Unit is a government organization that is not a Government Business Enterprise. Governmental Units include government departments, public service votes, funds, agencies, service organizations, boards, government not-for-profit organizations and government business-type organizations. The accounts of Governmental Units are consolidated on a line-by-line basis after adjusting the accounting policies to be consistent with those described in Note 1 (c), with the exception of Tangible Capital Assets. Significant inter-organization accounts and transactions are eliminated.

A Government Business Enterprise is a self-sustaining organization that has the financial and operating authority to sell goods and services to individuals and non-government organizations as its principal activity and source of revenue. Government Business Enterprises have been accounted for on the modified equity basis which does not require any accounting policy adjustments. The net equity of the Government Business Enterprises is included in the Statement of Financial Position. The net income is shown as a separate item in the Statement of Operations.



Province of Nova Scotia
Notes to the Consolidated Financial Statements
As at March 31, 2007

A Government Partnership is a contractual arrangement between the government and a party or parties outside the reporting entity. The partners have significant clearly defined common goals, make a financial investment in the partnership, share control of decision making, and share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership. Where significant, the government's interest in partnerships is accounted for on the proportionate consolidation method.

A complete listing of the organizations within the Government Reporting Entity is provided in Schedule 9.

Financial results from fiscal year end to March 31, 2007, for Government Business Enterprises whose fiscal year ends are not March 31, were not significant to these consolidated financial statements so they have not been adjusted.

c) Significant Accounting Policies

Revenues

Revenues are recorded on the accrual basis. The main components of revenue are interest, various taxes and legislated levies. Revenues from Personal and Corporate Income Taxes, as well as Harmonized Sales Taxes are accrued in the year earned based upon estimates using statistical models. These revenues are recorded at the net amount estimated, after considering adjustments for tax credits and administrative costs related to the collection and processing performed by the federal government.

Government transfers are recognized as revenue in the period during which the transfer is authorized and any eligibility criteria are met. Transfers are recorded as deferred revenue if they are restricted for a stated purpose, such as a specific program or the purchase of tangible capital assets.

Expenses

Expenses are recorded on the accrual basis and are reported in more detail in Note 9 – Expenses By Object. Grants are recognized in the period during which the grant is authorized and any eligibility criteria are met. Provisions are made for probable losses on certain loans, investments, loan guarantees, accounts receivable, advances, forgivable loans and for contingent liabilities when it is likely that a liability exists and the amount can be reasonably determined. These provisions are updated as estimates are revised, at least annually.

Financial Assets

Cash and Short-term Investments are recorded at cost, which approximates market value. Investments are R-1 (low, mid, high) rated federal and provincial government bills or promissory notes, bankers' acceptances, term deposits and commercial paper. Terms of investments are generally 1 to 90 days. The average interest rate is 4.29% at year-end.

Accounts Receivable and Advances are recorded at the principal amount less valuation allowances.

Inventories for Resale are held for sale in the ordinary course of operations and are recorded at the lower of cost and net realizable value.

Loans are recorded at cost less adjustments for concessionary assistance and any prolonged impairment in value. Concessionary assistance consists of subsidies provided by the province and is recognized as an expense at the date of issuance of the loan. Any loan write offs must be approved by the Governor-in-Council. Loans usually bear interest at approximate market rates and normally have fixed repayment schedules.

Province of Nova Scotia**Notes to the Consolidated Financial Statements****As at March 31, 2007**

Investments are recorded at cost less adjustments for concessionary assistance and any prolonged impairment in value. Concessionary assistance consists of subsidies provided by the province and is recognized as an expense at the date of issuance of the investment. Any write-down of an investment to reflect a loss in value is not reversed if there is a subsequent increase in value.

Liabilities

Bank Advances and Short-term Borrowings have initial maturities of one year or less and are recorded at cost that approximates market value. Short-term Borrowings had a weighted average interest rate of 4.17% at year-end on Canadian dollar borrowings.

Unmatured Debt consists of debentures and various loans in Canadian and foreign currencies and capital leases. Debt is recorded at par, net of sinking funds (including public debt management funds).

Hedge accounting is used when financial instruments form a hedging relationship, the relationship is highly effective and it is considered to be consistent with the province's financial risk management goals.

Sinking Fund and Public Debt Retirement Fund investments are recorded at cost and consist primarily of debentures of the Province of Nova Scotia, other provincial governments and the Government of Canada. Premiums and discounts on sinking funds are deferred and amortized over the life of the investment. Amortization and realized gains and losses for premiums and discounts relating to sinking fund balances and installments are netted against sinking fund earnings.

Unamortized Foreign Exchange Translation Gains and Losses result when debentures payable in foreign currencies, and sinking funds invested in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at March 31 and upon entering into derivative contracts. Foreign exchange gains and losses on the translation of foreign currency are amortized on a straight-line basis over the remaining term of the related monetary issue.

Premiums and discounts, as well as underwriting commissions relating to the issuance of debentures, are deferred and amortized over the term of the related debt. Amortization and realized foreign exchange gains and losses, premiums and discounts relating to debt balances, serial retirements, sinking fund balances and installments are charged to debt servicing costs except as noted above.

Pension, Retirement and Other Obligations include various employee future benefit plans. Pension liabilities for defined benefit plans are calculated using the projected benefit actuarial method using accounting assumptions that reflect the province's best estimates of performance over the long-term. The projected benefit actuarial method attributes the estimated cost of retirement benefits to the periods of employee service. The net pension liability represents accrued pension benefits less the market related value of pension assets (if applicable) and the balance of unamortized experience gains and losses. The market related values are determined in a rational and systematic manner so as to recognize asset market value gains and losses over a five-year period. The pension benefit plan for the majority of health sector employees is offered by a multi-employer plan administrator and is not sponsored by the province. Employer contributions to this plan are expensed in the period paid. The accrued benefit asset (liability) of this plan is not recognized in these financial statements.



Province of Nova Scotia
Notes to the Consolidated Financial Statements
As at March 31, 2007

Net Direct Debt

Net Direct Debt represents the direct liabilities of the province less financial assets and unamortized foreign exchange translation gains and losses and premiums and discounts on outstanding debenture issues.

Non-Financial Assets

Tangible Capital Assets have useful lives extending beyond the accounting period, are held for use in the production and supply of goods and services and are not intended for sale in the ordinary course of operations. Tangible capital assets are recorded at gross historical cost (or estimated cost when the actual cost is unknown) and include all costs directly attributable to the acquisition, construction, development and installation of the tangible capital asset, except interest. Tangible Capital Assets include land, buildings, major equipment and software, vehicles, ferries, roads, highways, and bridges. Tangible capital assets do not include intangibles or assets acquired by right, such as forests, water and mineral resources or works of art and historical treasures. Tangible capital assets are amortized to expense over the useful lives of the assets. The amortization methods and rates selected by entities other than the Consolidated Fund are not adjusted to the methods and rates used by the Consolidated Fund.

Inventories of Supplies are held for consumption or use by the province in the course of its operations. All entities record inventory at the lower of cost and net realizable value.

Prepaid Expenses are cash disbursements for goods or services, other than Tangible Capital Assets and Inventories of Supplies, of which some or all will provide economic benefits in one or more future periods. The prepaid amount is recognized as an expense in the year the good or service is used or consumed.

Accumulated Deficits

Accumulated Deficits represent the direct liabilities of the province less financial assets, non-financial assets and unamortized foreign exchange translation gains and losses and premiums and discounts on outstanding debenture issues. This represents the accumulated balance of net surpluses/deficits arising from the operations of the province.

d) Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recorded in the financial statements is known as measurement uncertainty. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material difference between the recognized amount and another reasonably possible amount.

Measurement uncertainty exists in these financial statements in the accruals for such items as pension, retirement and other obligations, environmental remediation obligations, federal, and provincial source revenues. The nature of the uncertainty in the accruals for pension, retirement and other obligations arises because actual results may differ significantly from the province's various assumptions about plan members and economic conditions in the marketplace. Uncertainty exists for environmental remediation obligations because the actual extent of remediation activities required may differ significantly based on the actual extent of site contamination and the chosen remediation process. Uncertainty related to Sales and Income Taxes, petroleum royalties, CHT and CST arises because of the possible differences between the estimated and actual economic growth and other assumptions used in statistical models to accrue these revenues.

Province of Nova Scotia

Notes to the Consolidated Financial Statements

As at March 31, 2007

2. Accounting Changes

Accounting changes were made during the year that have increased (decreased) the Provincial Surplus, Net Direct Debt and Accumulated Deficits as follows:

(\$ millions)	2007			2006		
			Net			Net
	Provincial	Direct	Accumulated	Provincial	Direct	Accumulated
	Surplus	Debt	Deficits	Surplus	Debt	Deficits
	April 1, 2006	April 1, 2006	April 1, 2006	April 1, 2005	April 1, 2005	April 1, 2005
TCA	18.6	0.0	(21.0)	10.6	0.0	(10.4)

TCA -Tangible Capital Assets

In accordance with PSAB, a policy change was implemented to record tangible capital assets at gross cost. This policy change was recorded on a retroactive basis and the impacts are shown in the table above.

District Health Authorities – Supplementary Pensions

Supplementary pension arrangements for certain employees of the District Health Authorities which were recorded as accounts payable have been restated to pension, retirement and other obligations and accounted for using pension accounting. This change was recorded on a retroactive basis and the prior period impact of \$56 thousand does not appear in the table due to rounding.

3. Restricted Cash and Short-Term Investments

As at March 31, 2007 restricted cash and short-term investments of \$84.4 million (2006 - \$69.9 million) have been designated for restricted purposes by parties external to the province. Restricted cash includes \$43.6 million for future housing expenditures from the Nova Scotia Housing Development Corporation; \$22.4 million from Capital District Health Authority for the Centre for Clinical Research and other purposes; \$8.5 million for gas market development from the Nova Scotia Market Development Initiative; and \$9.9 million for various other purposes.



Province of Nova Scotia
Notes to the Consolidated Financial Statements
As at March 31, 2007

4. Deferred Revenue

Receipts are recorded as deferred revenue if they are restricted by external parties for a stated purpose, such as a specific program or the purchase of tangible capital assets. Deferred revenue is recognized into revenue over time as the recognition criteria are achieved. The balance includes the following components:

(\$ thousands)

	2006-07	2005-06
Offshore Accord	715,479	772,900
C-48 Federal Trust Agreements	82,957	—
Office of Immigration – Nova Scotia Nominee Program	72,092	—
Wait Times Reduction Fund	51,445	86,111
Nova Scotia Housing Development Corporation's Social Housing Agreement	44,038	33,448
Capital District Health Authority's Capital and Research Funds	43,197	23,727
Early Learning Child Care funds	42,176	24,588
Miscellaneous Amounts	92,252	91,044
Total Deferred Revenue	1,143,636	1,031,818

5. Derivative Financial Instruments

The province is a party to financial instruments with off-balance sheet risk, either to hedge against the risks associated with fluctuations in foreign currency exchange rates or to manage risks associated with interest rate fluctuations. Foreign currency contracts are used to convert the liability for foreign currency borrowing and associated costs into Canadian or US dollars. Interest rate contracts are used to vary the amounts and periods for which interest rates on financial instruments are fixed or floating. Foreign exchange contracts include forward and swap agreements. Interest rate contracts include swap agreements and options on swaps.

The province's credit policy is that it only executes derivative transactions with counter parties with an A rating or better.

The province had the following interest and currency swap contracts outstanding at March 31, 2007:

# of Swaps	Currency	Notional Principal (\$thousands)	Term Remaining (years)	Mark to Market* (\$millions)
158	CDN\$	1,899,480	42 days to 24	(17.5)
17	US\$	2,350,000	5 to 15	(379.2)
2	UK	83,250	4 to 12	7.5
2	Euro	90,000	272 days to 3	6.8

*Mark to Market is an indication of the swap's market value as at March 31, 2007. This represents the estimated realizable gain (loss), and is equivalent to the present value of future savings (losses) based on market conditions as at March 31, 2007.

Province of Nova Scotia

Notes to the Consolidated Financial Statements

As at March 31, 2007

The province has executed several currency swap contracts/forward agreements to convert foreign denominated debt into Canadian or US denominated debt. The mark to market of these swap/contracts are included in the previous table, and the currency swap contracts are as follows:

<i>Termination Date</i>	<i>Original Currency</i>	<i>Original Principal</i>	<i>Current Currency</i>	<i>Current Principal</i>
		(\$ thousands)		(\$ thousands)
<i>SWAPS:</i>				
October 31, 2011	UK	23,250	CDN\$	56,283
April 18, 2019	UK	60,000	US\$	110,040
February 27, 2012	US\$	500,000	CDN\$	795,000
March 15, 2016	US\$	150,000	CDN\$	205,725
January 26, 2017	US\$	500,000	CDN\$	586,500
March 1, 2020	US\$	300,000	CDN\$	409,200
May 1, 2021	US\$	300,000	CDN\$	312,002
April 1, 2022	US\$	300,000	CDN\$	379,517
July 29, 2022	US\$	218,376	CDN\$	239,711
July 30, 2022	US\$	81,624	CDN\$	89,599
December 28, 2007	Euro	40,000	CDN\$	56,120
February 24, 2010	Euro	50,000	CDN\$	72,235

At March 31, 2007 the province had entered 5 forward agreements to convert future interest payments on foreign debt into Canadian dollars as follows:

<i>Termination Date</i>	<i>Original Currency</i>	<i>Original Principal</i>	<i>Current Currency</i>	<i>Current Principal</i>
		(\$ thousands)		(\$ thousands)
April 18, 2007 to August 1, 2007	US\$	45,794	CDN\$	51,371

6. Federal Equalization Repayable Loan

The province received an equalization repayable loan from the Federal Government in March 2005 in the amount of \$120.3 million. The loan bears no interest and is being repaid over 10 years, with bi-monthly deductions of \$501,342 to commence in April 2006. As of March 31, 2007 the balance of the loan is \$108,289,792.



Province of Nova Scotia
Notes to the Consolidated Financial Statements
As at March 31, 2007

7. Pension, Retirement and Other Obligations

a) Description of Obligations

The province offers a variety of pension, other retirement, post-employment and special termination benefits. The province is responsible for adequately funding most of the plans. Except as otherwise noted, the cost of benefits are recognized in the periods the employee provides service. For benefits that do not vest or accumulate, a liability is recognized when an event that obligates the province to pay benefits occurs. The significant plans are detailed as follows:

i) Pension Benefit Plans

The province sponsors two funded pension plans, the Public Service Superannuation Plan (PSSP) and the Nova Scotia Teachers' Pension Plan (TPP). Both plans are defined benefit plans with plan assets primarily composed of Canadian and foreign equities, government and corporate bonds, debentures, secured mortgages and real estate. The plans are jointly funded with contributions from employees being matched by the province. Benefits paid upon retirement are based on an employee's length of service, rate of pay and inflation adjustments.

On April 1, 2006, the Minister of Finance transferred responsibility for the governance of the Nova Scotia Teachers' Pension Fund to the Teachers' Pension Plan Trustee Inc., (TPPTI). The TPPTI is a body corporate comprised of nine board members – four nominated by the Nova Scotia Teachers' Union, four nominated by the province and one Chair agreed to by both parties. As a result of this transfer, the province and Union agreed to share all surpluses and deficits of the plan equally. The province accounts for one-half of all components of the accrued benefit liability associated with the plan in its financial statements. In addition, the province recognizes one-half of components associated with the net benefit expense (recovery) associated with this plan. As of March 31, 2007, the total accrued benefit liability associated with the plan was \$64.1 million.

The province has several unfunded defined pension plans. The majority of these plans do not require contributions from employees. Benefits paid upon retirement are based on an employee's length of service, rate of pay and inflation adjustments.

Employees in the health sector are members of a multi-employer defined benefit pension plan. As the province does not sponsor this plan, the annual net benefit plan expense is the amount of required contributions provided for employees' services rendered during the year. The accrued benefit asset (liability) of this plan is not recognized in these financial statements. The most recent actuarial valuation was performed on December 31, 2005 and showed a funding excess for the entire plan of \$44 million. An extrapolation to December 31, 2006, was performed, which indicated a funding surplus of \$69.2 million.

ii) Other Retirement Benefit Plans

The province sponsors two other retirement benefit plans: retirement allowances and retirement health plan benefits. These plans are not funded. Benefits paid upon retirement for retirement allowances are based on an employee's length of service and rate of pay. Retirement health plan benefits vary depending on the collective agreements negotiated with each group. The province pays 65% and 100% of the cost of retirement health plan benefits for the PSSP and TPP retirees respectively.

iii) Post-Employment Benefits

The province offers two significant post-employment benefit plans: Self Insured Workers' Compensation and Long-Term Disability. The amount recorded in these financial statements represents the actual amount of benefits paid during the year plus the actuarial estimate of future payments, based on claims ongoing at year-end. For the Long-Term Disability plan, the obligation is offset by the market related value of plan assets.

Province of Nova Scotia

Notes to the Consolidated Financial Statements

As at March 31, 2007

iv) Special Termination Benefits

The province has offered early retirement incentive programs to members of the PSSP and TPP at various times commencing in 1986 and 1994 respectively. Qualified members were offered additional years of pensionable service if they elected to retire. The cost of these benefits was accrued in the year the employee accepted the early retirement option.

b) Summary of Activity in Defined Benefit Plans

Accrued Benefit Liability (\$ thousands)

	2007	2006 (as restated)
Pension Benefit Plans	215,741	111,416
Other Benefit Plans	1,220,640	1,192,913
	1,436,381	1,304,329

Activity During the Year (\$ thousands)

	Pension Benefit Plans		Other Benefit Plans	
	2007	2006 (as restated)	2007	2006
Projected benefit obligation, beginning of year	8,627,438	8,412,164	1,206,972	1,160,838
Reduction of obligation on move to joint trusteeship (see a i)	(2,286,529)	—	—	—
Current benefit cost	179,557	196,453	54,189	52,477
Interest cost	449,916	616,694	68,411	69,709
Actuarial (gains) losses	308,291	31,278	(72,857)	9,926
Benefit payments	(379,543)	(479,158)	(92,885)	(86,910)
Other	3,666	2,498	2,089	—
Plan amendments	—	(152,491)	30,004	932
Projected benefit obligation, end of year	6,902,796	8,627,438	1,195,923	1,206,972
Market related value of plan assets, beginning of year	7,708,044	7,313,800	54,711	45,217
Reduction of assets on move to joint trusteeship (see a i)	(2,152,887)	—	—	—
Expected return on plan assets	388,077	557,467	3,916	3,398
Actuarial gains (losses)	26,843	(72,646)	(208)	(1,458)
Benefit payments	(379,543)	(479,061)	(92,885)	(86,910)
Other	4,588	2,498	(403)	(529)
Employer contributions	109,367	275,397	92,152	85,484
Employee contributions	87,420	110,589	10,505	9,509
Market related value of plan assets, end of year	5,791,909	7,708,044	67,788	54,711
Funded status, end of year	(1,110,887)	(919,394)	(1,128,135)	(1,152,261)
Unamortized net actuarial (gains) losses	895,146	807,978	(92,505)	(40,652)
Accrued benefit liability, end of year	(215,741)	(111,416)	(1,220,640)	(1,192,913)



Province of Nova Scotia
Notes to the Consolidated Financial Statements
As at March 31, 2007

c) Actuarial Assumptions

The table below shows significant weighted-average assumptions used to measure pension and other benefit plan obligations.

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Long-term inflation rates	2.5%	2.75%	2.75%	2.75%
Expected real rate of return on plan assets	4.5%	4.75%	—	—
Rate of compensation increase	2.75% to 5.5% + merit	3.25% to 6 % + merit	2.75% to 5.5% + merit	3.25% to 6.0% + merit
Discount Rate – Main plans	7.11%	7.63%	5.7%	5.95%
Other	—	—	5.7% to 6.7%	5.95% to 7.12%

Other assumptions used were:

6.5% annual rate increase in the cost per person of covered healthcare benefits for 2006-07, decreasing at 0.25% per annum to an ultimate rate of 4.5% per annum.

11% annual rate increase in the cost per person of covered prescription drugs for 2006-07, decreasing at 1% per annum to an ultimate rate of 4.5% per annum.

Actuarial assumptions are reviewed and assessed on a regular basis to ensure that the accounting assumptions take into account various changing conditions and reflect the province's best estimate of performance over the long-term.

Province of Nova Scotia

Notes to the Consolidated Financial Statements

As at March 31, 2007

d) Other Disclosure

The net unamortized actuarial gains (losses) are amortized on a straight-line basis over the expected average remaining service life (EARSL) of the related employee groups ranging from 6 years to 16 years (weighted-average EARSL is 14 years).

During the year the weighted average actual rate of return on plan assets was 10.4% (2006 – 14.0%). The total market value of plan assets is \$8.7 billion (2006 - \$8.1 billion) at March 31, 2007.

The most recent actuarial valuations performed for most of the benefit plans was at December 31, 2005 with the exception of certain other retirement benefit plans that were performed on December 31, 2004 and the post-employment benefit plans that are performed annually at March 31.

e) Net Benefit Plans Expense (Recovery)

The table below shows the components of the net benefit plans expense (recovery).

(\$ thousands)

	Pension Benefits		Other Benefits	
	2007	2006 (as restated)	2007	2006
Current benefit cost	179,557	196,453	54,189	52,477
Employee contributions	(87,915)	(110,589)	(10,529)	(9,509)
Employer contributions*	29,658	—	—	—
Plan amendments	—	(152,491)	30,004	932
Amortization of net actuarial (gains) losses	59,776	46,609	(8,087)	(2,279)
Recognition of actuarial losses on plan amendment	—	152,491	(12,709)	—
Other	(35)	(6)	2,003	1,583
Decrease in valuation allowance	—	—	—	—
Interest cost	449,916	616,694	68,411	69,709
Expected return on plan assets	(388,077)	(557,467)	(3,916)	(3,398)
Employer contributions to multi-employer plan	55,439	47,866	—	—
Net benefit plans expense (recovery)	298,319	239,560	119,366	109,515

* This represents one-half of the employer contributions made by PNS to the TPP. Included in the figures above for 2007, are one-half of all transactions associated with TPP to reflect the province's share of this plan.



Province of Nova Scotia
Notes to the Consolidated Financial Statements
As at March 31, 2007

8. Trust Funds Under Administration

Trust fund assets administered by the province (before giving consideration to actuarial adjustments) are:

(\$ thousands)

	2007	2006 (as restated)
Public Service Superannuation Fund (1)	3,817,047	3,541,764
Nova Scotia Teachers' Pension Fund (1), (4)	4,758,444	4,384,443
Sydney Steel Corporation Superannuation Plan (1), (2)	2,835	8,431
Nova Scotia Public Service Long Term Disability Plan (1), (4)	68,611	52,543
Nova Scotia Credit Union Deposit Insurance Corporation (1), (4)	15,354	13,841
Public Trustee (1)	34,178	30,777
Miscellaneous Trusts (3)	25,659	23,744
Total Trust Funds Under Administration	8,722,128	8,055,543

- (1) See Public Accounts Volume II for full financial statements of these funds.
- (2) Administration of the assets of Sydney Steel Corporation Superannuation Fund was assumed during fiscal 2001.
- (3) Miscellaneous trusts include a large number of relatively small funds.
- (4) These represent trusts with December 31 year ends. Trust asset balances at March 31 did not differ significantly.

9. Expenses by Object

(\$ thousands)

	2007	2006 (as restated)
Grant and Subsidies	2,414,426	2,287,771
Salaries and Employee Benefits	2,768,338	2,541,784
Operating Goods and Services	1,434,972	1,325,361
Professional Services	237,813	207,862
Amortization	241,874	216,040
Debt Servicing Costs	958,744	1,017,779
Other	54,456	37,566
Total Expenses	8,110,623	7,634,163

Province of Nova Scotia

Notes to the Consolidated Financial Statements

As at March 31, 2007

10. Debt Servicing Costs

(\$ thousands)

	2007	2006 (as restated)
CDN\$ Denominated Debt	683,310	630,736
US\$ Denominated Debt	100,029	178,546
Pension, Retirement and Other Obligations	126,337	125,495
Capital Leases	26,482	27,519
Other Debt	27,877	41,467
Premium / Discount Amortization	2,129	3,735
Foreign Exchange	(8,312)	9,499
Miscellaneous	892	782
Total Debt Servicing Costs	958,744	1,017,779

Debt servicing costs for Government Business Enterprises was \$20.4 million for the year ended March 31, 2007 (\$21.3 million for the year ended March 31, 2006).

11. Cash-Flow – Net Change in Other Items

(\$ thousands)

	2007	2006 (as restated)
Change in Receivables from Government Business Enterprises	(39,150)	(15,412)
Change in Receivables and Advances	47,889	(67,182)
Change in Accounts Payable and Other Short-term Borrowings	(106,898)	(131,907)
Change in Inventory for Resale	86	52
Change in Inventory of Supplies	866	(1,506)
Change in Prepaid Expenses	(548)	(1,202)
Change in Deferred Revenue	111,818	785,559
Change in Accrued Interest	(4,177)	(24,645)
Change in Pension, Retirement and Other Obligations	132,052	(60,815)
Total Net Change in Other Items	141,938	482,947



Province of Nova Scotia
Notes to the Consolidated Financial Statements
As at March 31, 2007

12. Contingencies and Contractual Obligations

a) Contingent Liabilities

i) Environmental Sites

Various provincially owned sites throughout the province are considered environmental or contaminated sites. Studies are ongoing to assess the nature and extent of damage to develop remediation plans. Provisions for these costs are recorded in these financial statements when it is determined a liability exists and a reasonable estimate of the remediation costs can be made. With the exception of remediation costs noted in the following paragraphs, no further provisions have been recognized in these financial statements.

Engineering and environmental studies have generated estimates for the cost of remediation of the Sydney Steel Corporation (Sysco) and adjacent sites as well as the Sydney Tar Ponds site. As a result, the province recorded liabilities totaling \$318.5 million in 2000 for environmental site clean up. At March 31, 2007, \$276.3 million (2006 - \$227.6 million) remains unspent. During the year it was determined that \$58.8 million could be returned to the environmental site clean-up provision due to better than expected recoveries on asset and scrap sales since the closure of Sysco. The provision will continue to be utilized for future decommissioning, demolition and remediation of Sysco's and adjacent sites, including the Sydney Tar Ponds site. Based on currently available information, the provision, in aggregate, appears to be sufficient to cover the estimated costs to remediate these sites.

Other remediation liabilities amounting to \$12.5 million (2006 - \$14.9 million) have been recognized in these financial statements.

ii) Lawsuits

The province's losses for any lawsuits pending cannot be determined due to uncertainty of the trial outcomes.

iii) Other Contingent Liabilities

The province also has contingent liabilities in the form of indemnities. The province's potential liability, if any, cannot be determined at this time.

b) Contingent Gains

The Province of Nova Scotia may receive funds in the future from recoveries of various types of claims paid out and other agreements pending the occurrence of certain events. Recoveries are recorded in the year the contingent events occur.

Province of Nova Scotia
Notes to the Consolidated Financial Statements
As at March 31, 2007

c) Contractual Obligations

i) Contractual Obligations

Contractual obligations outstanding at March 31, 2007 total \$1,552.5 million; comprised of \$1,356.8 million for the Consolidated Fund, \$182.9 million for other Government Units and \$12.8 million for Government Business Enterprises. Included are contractual obligations of \$109.7 million by Nova Scotia Business Incorporated for projects approved under its various programs, \$246.3 million by the Department of Education for university assistance, \$374.0 million by the Department of Education for P3 School maintenance agreements, and \$185.4 million by the Department of Health for the management of the ground ambulance fleet.

In addition to the contractual obligations noted above, in 1992 the Department of Justice entered into a 20-year contract with the RCMP for policing services, including services paid by the municipalities under the Service Exchange Agreement. Costs are negotiated each year based on required policing services. The net estimated expense for the province for 2008 is \$21.2 million.

ii) Leases

As at March 31, 2007, the province was contractually obligated under various operating leases. Future minimum annual lease payments are as follows:

(\$ thousands)

Fiscal Year	Governmental Units	Government Business Enterprises	Total Lease Payments
2007-2008	50,791	8,141	58,932
2008-2009	34,629	7,636	42,265
2009-2010	28,489	6,849	35,338
2010-2011	20,873	6,188	27,061
2011-2012	17,509	6,035	23,544
2013-2017	24,724	—	24,724
2018-2022	8,511	—	8,511
2023-2027	507	—	507
	186,033	34,849	220,882



Province of Nova Scotia
Notes to the Consolidated Financial Statement
As at March 31, 2007

13. Comparative Figures

To conform with the current year's presentation, certain comparative figures for the prior year have been restated as follows:

a) Accounting Changes

As described in Note 2, there have been some retroactive restatements of figures in accordance with changes made during the year.

b) Presentation

Certain of the prior year's numbers have been restated to conform to the presentation format adopted in the current year.

14. Related Party Transactions

Included in these consolidated financial statements are immaterial transactions with various provincial crown corporations, agencies, boards and commissions. Significant related party transactions have been offset and eliminated for purposes of consolidated reporting. Parties are deemed to be related to the Consolidated Fund due to common control or ownership by the Province of Nova Scotia.

The most significant unadjusted related party transactions are described in Schedule 6 – Government Business Enterprises.

